

May 3, 2023

The Honorable Sandra Thompson
Director
Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Dear Director Thompson:


On behalf of the 1.5 million members of the National Association of REALTORS® (NAR), we thank you for your efforts to improve the valuation process for residential real estate. NAR believes that modernization of the valuation process is important to reduce risk and improve efficiency, but that desire must be balanced with consumer benefits and protections as well as safety and soundness. To this end, NAR urges the FHFA to encourage competition, transparency, responsibility, and accountability among the valuation counterparties of the Government Sponsored Enterprises (the Enterprises).

The National Association of REALTORS® is America's largest trade association, including NAR's five commercial real estate institutes and its societies and councils. REALTORS® are involved in all aspects of the residential and commercial real estate industries and belong to one or more of some 1,200 local associations or boards, and 54 state and territory associations of REALTORS®. NAR represents a wide variety of housing industry professionals, including approximately 25,000 licensed and certified appraisers, committed to the development and preservation of the nation's housing stock, along with its availability to the widest range of potential homebuyers.

NAR Supports Modernization with Risk Management

NAR supports innovation in real estate and new valuation solutions should always be assessed for their potential benefits to the valuation industry. Using a professional appraiser for the entire valuation process remains the best practice, however, technological advances and market demands have led to the use of hybrid and bifurcated appraisals in certain circumstances. Having these different valuation options can be beneficial to real estate.

REALTORS®' clients depend on a steady flow of funding from willing investors to finance home purchases. Credible valuations are key for credit investors to understand risks to recoup their investments and thus critical to the flow of funds. Several private parties have reviewed automated valuation models (AVMs), but the market still needs a review of the veracity and applicability of different AVM models as well as how they perform through a housing cycle. Because of the stark supply shortages which buttress home values, the current pandemic experience does not provide a robust stress test. If credit risk investors' confidence in the valuations of Enterprises' credit products is shaken, the market could pull back, which could limit the GSEs' ability to issue MBS and to finance home purchases given their portfolio limitations. Such a scenario means higher costs for consumers and likely fewer transactions. Regulators should conduct a thorough review of the use of AVMs for waivers and their applicability to different market segments and through the housing cycle, the impact on credit risk investors as well as the Enterprises public mission.



Likewise, when a third-party data collector is selected to provide data for a valuation, REALTORS® believe they should be selected based on criteria and due diligence that will assure proper training, liability coverage, and access to necessary data. Third-party data collectors must be able to provide unbiased information, and there should be enforcement to ensure proper performance. An appraiser should be able to communicate with the property data collector as necessary. The appraiser must be allowed to provide supplemental information in the report to address aspects of the assignment necessary to comply with USPAP. All data provided to the appraiser, including the report, must be available for retention in the appraiser's work file.

Unfortunately, very little is known about the testing or evaluation of data collectors used in the pilot programs by Fannie Mae and Freddie Mac or the 3-D scanning technology they use. Workers in parallel industries such as inspectors, insurance agents, real estate videographers, appraisers, or appraisal trainees might all possess different acumen that could help in data collection, but some might perform better than others and have ancillary benefits such as licensing or industry ties that ameliorate negative behaviors. *Fannie Mae, Freddie Mac, and the FHFA should publish information about the quality of data collection, both the actors collecting it and the technology they use to measure properties for the industry, as well as, the Enterprises' counterparties, like private mortgage insurers and credit risk transfer investors that depend on accurate valuation.*


Supporting Consumer Protections

Consumers rely on professional valuations to validate their contract price. A contract price can be renegotiated to protect the consumer based on a credible valuation. Appraisal waivers that fail to inform the consumer of this important market valuation deny the consumer an important protection. To this end, *the Enterprises should disclose to consumers that they may not be receiving a third-party appraisal when a waiver is granted and that the results of the Enterprises' valuation should and will be provided for their use.*

Furthermore, the detailed nature of 3-D scans raises questions of adequate consumer protections. Financial data privacy is being debated in Congress and this data deserves the same review. These data and recordings are first housed at appraisal management companies (AMCs) before being forwarded to the Enterprises. However, it is not clear that the same level of attention is being given to security and privacy concerns related to the detailed images of property's inhabitants, their belongings, property access, and their security systems. *The FHFA and other regulators should review the implications of third-party repositories of such data as well as its security.*

Modernization and Diversity at Odds

NAR joined the Appraisal Diversity Initiative in 2022 to help develop a more diverse appraisal profession. This engagement is in addition to NAR's own NAR Spire program that educates aspiring real estate professionals from communities of color on opportunities in real estate and partners them with mentors through local workshops. These efforts garner promise, but the automation of the valuation profession raises questions about the viability of the career opportunities for these candidates. Furthermore, it does not appear that appraisal trainees were considered for any of the data collection pilots. Appraisal trainees have passed extensive course work and examinations. The work of data collection would further their knowledge of the data needed for appraisals, how it is collected, and if the Appraisal Foundation could be persuaded, it might be used to satisfy experience requirements for licensing. And, given that the work of an appraisal trainee is unpaid, the salary for data collection would be a critical form of support for these candidates. *Fannie*



Mae and Freddie Mac should combine their efforts on diversifying the appraisal profession by incenting the AMCs in their pilot to utilize appraisal trainees for data collection.

Reduced Competition Hurts Consumers and Investors

Fannie Mae recently announced its new Value Accept program which includes appraisal waivers for qualifying properties, but also authorizes the use of data collection by qualifying third parties. Lenders are required to vet the third parties for compliance with Fannie Mae's requirements. This program was development in pilot with six AMCs but excluded several hundred AMCs and many more independent appraisal companies. While in pilot, these companies were able to develop proprietary 3-D technology for collecting metrics and pictures of properties interiors and exteriors. While the technology has clear potential to raise the quality of data collection, providing six large companies with a competitive starting advantage is concerning given the potential impact on consumer choice and overall market competition.

The Enterprises and the FHFA took great strides to increase competition among its credit risk counterparties, first building the credit risk transfer market, then implementing the Private Mortgage Insurers Eligibility Requirements (PMIERS), and most recently creating boards of reinsurers under the Integrated Mortgage Insurance (IMAGIN) program. The FHFA clearly looked to expand competition among its credit risk counterparties and to improve the resilience of their practices, rather than reduce it in favor of those with the financial resources to develop new technology. The FHFA should develop similar best practices for their AMC counterparties and work to expand competition in this space.

GSE Reform and Appraisal Modernization

As de facto utilities, Fannie Mae and Freddie Mac support liquidity in the secondary market as well as other charter duties as mandated by Congress. In return, they are allowed to spread their costs across large market shares and over time due to their unique accounting structure, tax preferences, and access to Treasury funding.

Appraisal modernization and the technological innovations being brought to bear present real opportunities to improve data quality and safety and soundness. In the long-term, proponents argue these innovations could reduce valuation delays and reduce costs. However, the process for their implementation so far is problematic.

Fannie Mae and Freddie Mac both use internal AVMs to vet loans and grant waivers. Those AVMs may work very well, or not. The market is still waiting on a full regulatory review of AVMs, which should include those used by Fannie Mae and Freddie Mac. Yet AVMs are and have been used to grant waivers at the Enterprises for years. This lack of transparency and accountability runs counter to the critical checks for any public utility, let alone two worth nearly \$6 trillion.

The Enterprises are limited in the size of their portfolios and mandated to externalize credit and other risks as a means of limiting their ability to internalize risk and become a systemic threat. To the extent that the Enterprises are internalizing this new valuation risk, it presents a threat to their charter duty of supporting liquidity in the market at all times.

Furthermore, given the limitations on Enterprises' portfolios, a pull back by PMIs, reinsurers and CRT investors hurt by poor valuations practices, could limit the Enterprises' ability to issue new mortgage-backed securities and thus to support market liquidity. It is in the interest of all parties that depend on these utilities to have full transparency on the valuations underlying the GSEs' activities.

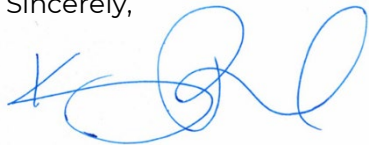
In the runup to the financial crisis, the Enterprises competed for market share, primarily by purchasing private label securities, to the detriment of the market. *The FHFA must have the ability to monitor and verify the Enterprises' valuation methods and the extension of appraisal waivers to prevent the Enterprises from using this avenue to compete for market share.*

Fannie Mae and Freddie Mac have long experience in developing AVMs and decades of proprietary data to refine them on. However, the last financial crisis was brought about by all players assuming too much strength in underwriting of consumers in mortgage finance without verifying that as fact. Without adequate transparency, oversight and accountability, the market is opening itself up to assuming strong underwriting of properties without verification.

Further Collaboration

Once again, thank you again for your efforts to support the nation's homeowners and expand the appraiser profession. REALTORS® see opportunities in the modernization of the valuation process, but that opportunity must be balanced against consumer protections and safety and soundness. If you have any questions or comments, please feel free to reach out Ken Fears (KFears@NAR.REALTOR), Director of Conventional Finance and Valuation Policy.

Sincerely,



Kenny Parcell
2023 President, National Association of REALTORS®