



October 26, 2021

Melody Taylor
PAVE Executive Director
Regional Director, Office of Housing and Equal Opportunity (Region III)
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Ms. Taylor:

The Collateral Risk Network welcomes the opportunity to respond to the Biden administration's focus on appraisal issues as outlined in the Executive Order issued on January 20, 2021. The CRN is a non-profit 501(C) 3, comprised of over 500 chief appraisers, compliance officers, and risk managers from lending institutions, as well as Appraisal Management Companies.

The CRN has been focused on "Reengineering the Appraisal Process" for over a decade. The CRN's primary mission, now as a non-profit, is to advance the use of sound collateral risk management principles, policies and practices within the housing finance industry. CRN promotes a broad multi-stakeholder approach to risk management that focuses on valuation, collateral risk, compliance and oversight.

The Biden Administration has established a task force, Property Appraisal and Valuation Equity (PAVE) with the scope defined as follows:

1. Ensure the government oversight and industry practice further valuation equity;
2. Combat valuation bias through educating the consumer and training the practitioner;
3. Ensure equity in valuation by making available high-quality data;
4. Create a comprehensive approach to combating valuation bias through enforcement and other efforts.

The CRN looks forward to interacting with PAVE and to be actively engaged in proposing a plan to stabilize the valuation process to ensure fairness, integrity, credibility and confidence. The CRN proposes a plan that will:



- structurally overhaul the appraisal regulatory regime
- bringing the appraisal process into the 21st century

Meeting those objectives would provide the necessary framework to set a course for the appraisal profession to modernize, be held accountable, be transparent and be responsive to the needs of the housing finance system.

Background

The Issue of “appraisal bias” has plagued the profession from the outset. There is natural friction between both loan production, and real estate agents, who are incentivized to close a loan at the highest possible price. The appraiser’s opinion of market value was codified in FIRREA in 1989 as the “most probable price” not the “highest price” as it was the previously defined. Independence and appraiser pressure was addressed during the Mortgage Crisis as a result of the Home Valuation Code of Conduct which was an agreement between the New York Attorney General, FHFA, Fannie Mae and Freddie Mac for loans to be sold to both agencies. Dodd-Frank essentially incorporated some of the tenets of the HVCC while at the same time terminating the HVCC. Appraiser Independence Requirements (AIR) was then established by both GSEs to further address independence for loans they purchased. While both Dodd-Frank and AIR require the reporting of appraiser and/or AMC misconduct to the applicable State licensing agency or other regulatory body, there are few referrals and little to no enforcement. The CRN is concerned that many of the practices of the past are plaguing the appraisal profession again today.

Current State

The Appraiser Population

The Bureau of Labor Statistics reports that 96.4% of appraisers are white. Not only is the appraiser population not racially diverse, but it is also predominantly male. The average age is reported to be approximately 60 years old. The average income of an appraiser is \$58,650. The lack of diversity within the appraiser population can be correlated to the AQB’s onerous supervisory training requirement of 1000 hours. Historically, appraisers enter the profession via the family business, acquiring a position in a financial institution, or transition from being a real estate agent. Consequently, it can be very difficult for an appraiser trainee to seek out “supervisory appraiser” without having contacts in the profession.

Additionally, it is prohibitively expensive for a supervisor to take on a trainee and commit several years to mentoring with the process being a financial burden for both the trainee and the supervisor. Conversely a trainee cannot afford to earn a degree to become certified or take an alternative byzantine path.

The charge against the appraisal profession is two-fold:

1. There are some individuals who are demonstrating racial bias when performing appraisals and
2. The appraisal process itself is under indictment as allowing bias, whether conscious or not, to enter the appraisal process.

Regardless of the direction of manipulation or the motivations of the appraiser, appraisers inserting bias into the transaction is untenable.

The Appraisal Process

The process itself is under indictment. The appraisal process in textbooks is not what is practiced today. The appraisal process is a three- legged stool-- the cost approach, the income approach, and the sales comparison approach. Today, with some exceptions, the GSEs require only a single approach to value- the sales comparison approach.

Today, there is nothing within the appraisal process itself that identifies speculative values as opposed to market value. There are no risk flags indicators on the current appraisal forms that adequately identifies risks to the lender or the investor. The GSEs ownership of the appraisal forms is a conflict of interest. The forms, under control of a newly expanded authority of the ASC, would be the most logical entity as they represent the public trust, and do not represent proprietary interests.

It is also worth noting that AVMs do not comply with federal law of meeting the definition of market value. AVMs are essentially sales price models, not valuation models as their output, does not meet and cannot meet, the codified definition of market value.

Proposed Solution

The lack of a central authority to oversee all valuation activity is long overdue. (See attached structural chart of our regulatory structure). In short, it is obvious why we are experiencing severe problems within our profession that frustrate all stakeholders.

The CRN proposes to amend FIRREA as follows:

1. ASC maintains an advisory board comprised of FFIEC agencies.
2. ASC reports to FSOC.
3. Fold the functions of TAF into ASC- USPAP is simplified, education guidelines and approvals.
4. Appraisal practice and forms are standardized- incorporate three approaches to value; include energy efficient addendum; include collateral risk questions. Adding risk questions could pave the way for future collateral risk modeling.
5. Partner with universities, especially minority schools, and community colleges to devise a plan to attract minorities- provide scholarships and compensate supervisors.
6. No supervisory hour requirement. Supervisory signature for a two-year period. (A supervisor could be remote).
7. No college degree, thus no alternative paths required.
8. Remove/rescind the GSE, VA and FHA FRT exemptions.
9. Legislative change to Market Value definition to more closely emulate a Sustainable Lending Value.
10. Enforcement arm of ASC to randomly audit appraisers' work product and AMC activities.
11. ASC to establish a Grievance Board for lenders and consumers to file a complaint.
12. ASC to establish an Appraisal Independence Board where appraisers can file a complaint against any party who exerts pressure upon the appraiser.

Technology, Data, Collateral Risk

1. CRN to act as the utility to maintain a global appraisal repository.
2. Standards - Unique 3D geocoded real property ID is adopted; adopt ANSI standard for GLA; develop a universal appraisal order form.
3. All appraiser credentials are managed in the repository (states to maintain their licensing programs on the platform).
4. AMC registrations.
5. All stakeholders would register for access to the portal- lenders, regulators, appraisers, investors, PMI companies, Rating agencies.
6. Blind ordering platform.
7. Democratization of the data- access by all stakeholders.
8. Cloud based appraisals with IVM (interactive valuation models).
9. Develop Collateral Risk Scores analogous to FICO scores.

Due to the lack of a central authority for real estate valuations, we have no avenue for an aggrieved borrower to file a complaint for racial bias, or to address a poor-quality appraisal or to report unprofessional behavior. Oftentimes, when a Reconsideration of Value (ROV) is reported to the lender it takes weeks to resolve. A fair and expeditious process must be established within ASC to ensure that the loan process proceeds fairly and without bias. Once the ASC is established to have these new responsibilities, these bias issues can be addressed swiftly.

Absent a centralized Grievance Board, the extent of racial bias remains unknown. Today we only have a collection of anecdotes that yield very little information to adjust policy, practice, and procedures. The CRN proposes that propping up a Grievance Board at the ASC would provide immediate relief to aggrieved consumers. The Grievance Board would be a short-term deliverable providing the most impact. Consumers would obtain a swift response that would allow a potential transaction to remain viable, if they are in fact a victim of racial bias. It would also serve to collect valuable information to monitor in real time, measure impact, and respond appropriately and expeditiously.

This Grievance Board would be the central repository of **all** appraiser independence violations. Any stakeholder may file a complaint of bias against any and all stakeholders. Once these complaints are centralized, then and only then, can:

- 1) the bad actors be identified,
- 2) infractions appropriately categorized,
- 3) remedies of expulsion or remediation imposed,
- 4) the depth and breadth of the bias problem measured

Summary

By restructuring the regulatory schema and establishing the utility to capture the appraisal transaction and data contained therein, for the first time in US history the collateral side of the mortgage transaction will be on solid ground.

The appraisal process can be fully restored, and new valuation methods explored under the newly established central authority of the ASC to oversee all valuation activity.

The CRN looks forward to participating in a proactive and goals-oriented approach to attracting minorities and women into the profession and set them on a path for success. The appraisal



profession plays an important role in housing finance. Confidence in the integrity of the appraisal process is essential to the safety and soundness of housing finance.

Sincerely,

A handwritten signature in blue ink, appearing to read "Joan N. Trice".

Joan N. Trice
President
Collateral Risk Network, Inc.

Cc: Maxine Waters, U.S. House of Representatives
Sandra Thompson, Federal Housing Finance Administration
Marcia Fudge, Housing and Urban Development

