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**National Association of Federally-Insured Credit Unions**

February 25, 2021

Federal Housing Finance Agency  
Office of Housing and Regulatory Policy  
400 7<sup>th</sup> Street SW, 9<sup>th</sup> Floor  
Washington, D.C. 20219

**RE: RFI on Appraisal-Related Policies, Practices, and Processes**

Dear Sir or Madam:

On behalf of the National Association of Federally-Insured Credit Unions (NAFCU), I am writing in response to the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on appraisal-related policies, practices, and processes. NAFCU advocates for all federally-insured not-for-profit credit unions that, in turn, serve 123 million consumers with personal and small business financial service products. NAFCU and its member credit unions appreciate the opportunity to provide input on this RFI and support the FHFA's acknowledgement of the need to modernize appraisals by creating a more streamlined and accurate valuation process. In supporting the FHFA's appraisal modernization efforts, NAFCU requests that the FHFA require consistent practices among individual appraisers; continue to allow Automated Valuation Models (AVMs) and appraisal waivers to be used for all low-risk mortgage loans; and update the AVM technology to allow AVMs to be used in rural areas to improve appraisal turnaround times.

**General Comments**

The 2008 financial crisis brought to light appraisal quality and validity issues causing lenders to receive an increase in repurchase requests from the government sponsored enterprises (GSEs), Fannie Mae and Freddie Mac. At that time, the GSEs found that the specific appraisal quality issues included poor data quality, unsupported adjustments and value conclusions, deficient market analysis, errors in property condition, inflated or fraudulent valuations, and a lack of appraiser independence from the lender originating the mortgage. In 2010, the FHFA and the GSEs standardized single-family mortgage data through the Uniform Mortgage Data Program (UMDP) to improve data accuracy, process efficiency, loan quality, and mortgage credit risk management. The GSEs began using collateral tools for their own quality control purposes and then made them available to lenders for use for their review of appraisals prior to closing on a mortgage.

Property value is a key determinate of borrower credit risk and an important aspect of the mortgage process. An appraisal is an objective way to assess the home's market value. Appraisals are important to protect all parties involved in the homebuying process, the lender, borrower, and seller; they objectively assess a home's market value which ensures that the amount of money requested by the borrower is appropriate. Although credit unions engage in sound underwriting practices NAFCU sees the modernization of the appraisal process as a necessary step in the

continued innovation of the housing finance system. There is a need for consistent reliable technology to simplify the appraisal process and make it more efficient.

During the COVID-19 pandemic, NAFCU's member credit unions saw an increase in desktop appraisals as compared to traditional appraisals because many consumers were not comfortable allowing appraisers to enter their home to conduct an appraisal. Although, partly borne out of necessity, this marked an improvement and step in the right direction in streamlining the appraisal process and expanding access to a mortgage loan for more borrowers. Desktop appraisals proved to be much easier and just as accurate for NAFCU's member credit unions to utilize to facilitate mortgage lending. Some members report often verifying desktop appraisals with AVMs and, in almost all cases, the AVMs support the desktop appraisal valuation. Considering this experience, now is the time for the FHFA and GSEs to consider additional improvements to the appraisal process and NAFCU applauds the release of this RFI and serious contemplation of adopting new technologies to forward appraisal modernization efforts.

**The FHFA should modernize the appraisal-related policies, practices, and processes through technology.**

*Appraisal Modernization*

To modernize appraisals means to explore the respective risks and benefits of the entire range of property valuation alternatives. NAFCU understands that there is no one-size-fits-all solution to the issues that arise from the traditional appraisal process; however, there is currently a need to streamline the appraisal process. When alternative processes, aside from traditional appraisals, can be employed, lenders should be allowed to use them at their discretion. NAFCU's member credit unions have noted that the current appraisal process involves a lot of repetitive steps and sometimes has an extensive turnaround time. Moreover, NAFCU's member credit unions have seen an increase in the price of appraisals during the pandemic. There is a lack of standardization between appraisers and throughout the appraisal process, the effects of this are carried over to the borrower in terms of overall costs.

The overall mortgage experience has made vast improvements relevant to the speed of the process, reducing confusion for the credit union and the borrower, the amount of paper used in the process, and minimizing opportunities for fraud; but the appraisal component of that process has not changed to keep up with the entire process. In fact, in the past eight years, more appraisals are being completed but the number of appraisers available to complete those appraisals has stayed the same.<sup>1</sup> More importantly, the average cost and turnaround time of an appraisal has increased over the past two years.<sup>1</sup>

NAFCU supports alternative appraisal processes such as appraisal bifurcation, desktop appraisals, and exterior only appraisals. There is existing technology developed to modernize the appraisal process that NAFCU suggests the GSEs endorse, as well as new and emerging technology, as an appraisal alternative. There are cellphone applications that allow the homeowner or real estate

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<sup>1</sup> Clear Capital, *Why We're Heading Into a Golden Age for Appraisal Modernization*, 1 (2021).

agents to submit photos necessary to complete the appraisal of the property, through the direction of the appraiser. For example, applications that eliminate barriers associated with developing accurate sketches of a property, could provide time and cost savings, making the process simpler for both the borrower and the lender. For appraisal technology to be effective, NAFCU requests that the FHFA ensure the GSEs are requiring consistent practices among individual appraisers. With consistent practices, the risks associated with alternative appraisal processes can be mitigated.

#### *Updating Uniform Appraisal Dataset and Redesigning Appraisal Forms*

Separately from modernizing the appraisal effort, NAFCU supports the use and update of the Uniform Appraisal Dataset (UAD). UAD was initially implemented in 2011 within the Uniform Mortgage Data Program. It introduced the GSEs' first standardization and aligned data requirements, along with updated appraisal forms. UAD facilitated the development of the GSEs collateral tools, namely Fannie Mae's Collateral Underwriter (CU) and Freddie Mac's Loan Collateral Advisor (LCA). CU and LCA use standardized data, historical appraisals, and advanced analytics/models to provide risk feedback on the quality of an appraisal. Through the redesign of appraisal forms and update of the UAD, the FHFA seeks to create a consolidated, dynamic Uniform Residential Appraisal report and associated dataset with the flexibility to support emerging technologies, future data updates, and appraisal process modernization.

NAFCU wholly supports the FHFA in finding new ways to streamline the review process and reduce the overall process cycle time. NAFCU's members have expressed that some appraisal turnaround times are taking as long as three to four months. Extended appraisal turnaround times increase the loan manufacturing time for the lender and create increased costs in the homebuying process for the borrower. UAD gives lenders the ability to share data with the GSEs and, ultimately, use CU and LCA to streamline their processes. NAFCU asserts that UAD is essential to the mortgage process and supports its update along with the redesign of appraisal forms.

#### *Automated Valuation Models and Appraisal Waivers*

NAFCU supports the continued use of AVMs and appraisal waivers as its member credit unions have been using them and they have not presented any issues. NAFCU requests that the FHFA allow AVM and appraisal waivers to continue to be used for all low-risk mortgage loans, both purchases and refinances. AVM and appraisal waivers have provided the benefit of enabling refinance transactions to lower the monthly costs for more borrowers, while representing a low risk to the GSEs, to refinance transactions. Credit unions that have high mortgage loan volumes use AVMs and appraisal waivers to keep up with that volume. Since the use of AVMs and appraisal waivers have been made available to credit unions, they have been able to provide a much higher level of service to their member-borrowers by reducing costs and turnaround times.

Although the use of AVMs and appraisal waivers may carry some risks, including higher than expected prepayment speeds on mortgage securities, these risks can be mitigated through the implementation of appraisal modernization efforts targeting current technical shortcomings. The benefits associated with using AVMs and appraisal waivers greatly outweigh the risks.

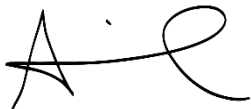
NAFCU requests that the FHFA provide technology that would result in more reliable AVMs for use in rural areas. Currently, AVMs are retrieved from public data but rural areas do not have enough sales data available for the AVMs to be accurate, so they are rarely available for use on rural properties. Instead, some credit unions report using heat maps to verify the accuracy of a valuation. The heat map brings in broad areas with multiple data points to provide a comparison to other properties in the marketplace to determine the average sales prices and deviation from the average. Although the GSEs service a high number of loans, their value models on rural properties do not reflect that. When an AVM is available to be used on a rural property the turnaround time is the same day. Conversely, turnaround around times for traditional appraisals on properties that are in rural areas is significantly longer. Moreover, credit unions have been faced with severe difficulties in securing an appraiser to complete traditional appraisals in these rural areas and sometime even in urban areas.

NAFCU's member credit unions would like to provide all their products and services, including mortgage loans, to their members in the rural communities they serve. Often, credit unions are the only financial institutions in a rural community, increasing the need for a more streamlined appraisal process so that these communities have easy access to safe, affordable mortgage credit. In rural communities, the appraisal process is less efficient than anywhere else. The ability to use AVMs and appraisal waivers in rural areas will decrease the strain placed on NAFCU's member credit unions and their member-borrowers when it comes to financing the purchase of a home through the mortgage loan process.

## **Conclusion**

NAFCU appreciates the opportunity to comment on the RFI on appraisal-related policies, practices, and processes. NAFCU supports the modernization of appraisals through technology, updating UAD and redesigning appraisal forms, and the use of AVMs and appraisal waivers. If you have any questions or concerns, please do not hesitate to contact me at (703) 842-2268 or [amoore@nafcu.org](mailto:amoore@nafcu.org).

Sincerely,

A handwritten signature in black ink, appearing to read 'A. Moore', with a stylized flourish at the end.

Aminah M. Moore  
Regulatory Affairs Counsel