



Navigating the Modern Era of Residential Appraisal

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Lunch and Learn Session - WyDak Chapter of the Appraisal Institute
With Collaborating Partners PAASD and NDAA
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AI's Appraiser Centric Advocacy

- Lobbying for the **Portal for Appraiser Licensing (PAL) Act** (H.R. 5657/S. 2692)
- Voicing our concerns to the CFPB & other agencies about the lack of transparency in the reporting of appraisal fees separately from AMC fees in closing statements.
- Pushing back on the false claims of bias found in recent fair housing ads (billboards, radio, print) promoted by HUD and the National Fair Housing Alliance.
- Raising the issues around the potential abuse of appraisal waivers and the use of unregulated Property Data Collectors (PDCs) and offering solutions.



Recent Billboard Ads Across the Country



Appraisal Modernization

What is “appraisal modernization”?

- “Appraisal modernization involves leveraging technologies, data, and analytics to enhance the management of collateral risk, making the process more efficient for lenders, borrowers, appraisers, and secondary-market investors”- Fannie Mae
- Began over a decade ago with UAD and UDCP
- Covid-19 forced unexpected test of “appraisal flexibilities”
- To some, appraisal modernization is code for *getting rid of appraisers*

1) “Lenders See Considerable Value in Appraisal Modernization, Fannie Mae, Perspectives Blog, May 11, 2022



Appraisal Modernization

- **Which trends are supportive of improvements in appraisal and will enhance the impact of the next generation of our profession?**
 - Efforts that enhance the ethical standards of appraisers
 - Those that support the work of appraisers by showcasing their expert analysis and opinions of value based on data and sound reasoning
- **Which are deeply concerning, not just for the profession, but also for the public trust?**
 - Substituting lesser methods of arriving at values with far less validity
 - Potentially unreliable and unregulated property data collections



Appraisal Modernization – Why?

94%

say appraisal modernization is valuable



Most beneficial area to adopt



32%

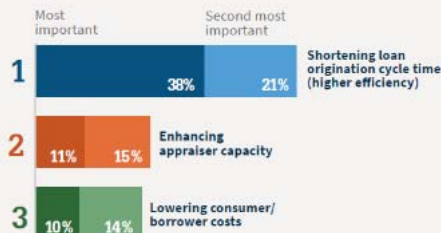
say inspection-based appraisal waivers



30%

say non-traditional appraisals (e.g., desktop appraisals or hybrid appraisals)

Most important potential benefits of appraisal modernization



Source: "Lenders See Considerable Value in Appraisal Modernization, Fannie Mae, Perspectives Blog, May 11, 2022; based on Fannie Mae seller research, Feb 2022



Appraisal Modernization – What?

“Fannie Mae is on a journey of continuous improvement to make the home valuation process more efficient and accurate. We're transitioning to a spectrum of options to establish a property's market value, with the option matching the risk of the collateral and the loan transaction. The spectrum balances traditional appraisals with appraisal alternatives”

Source: <https://singlefamily.fanniemae.com/valuation-modernization#:~:text=Fannie%20Mae%20is%20on%20a,collateral%20and%20the%20loan%20transaction.>

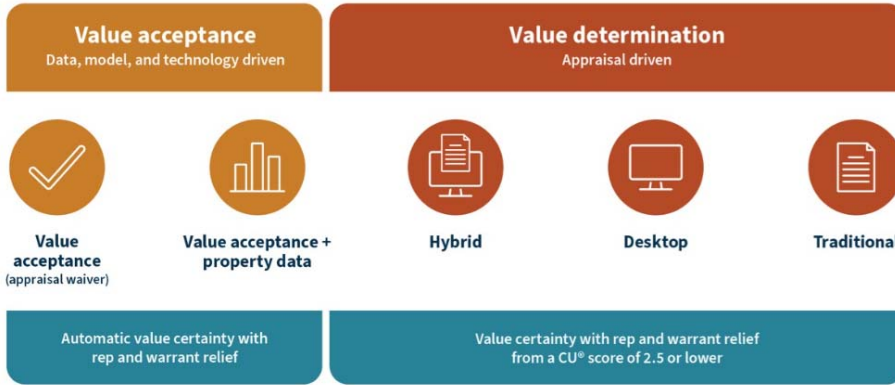


Appraisal Modernization

- **GSEs have always allowed “appraisal waivers” – remember Property Inspection Waivers (PIWs)?**
 - Accept lender submitted value with no appraisal or inspection
 - 1-unit primary residence or second home
 - Low or known risk transactions
- **2022/2023 saw the introduction of ACE+PDR and Value Acceptance+PD**
 - Slightly higher risk transactions



Appraisal Modernization – What?

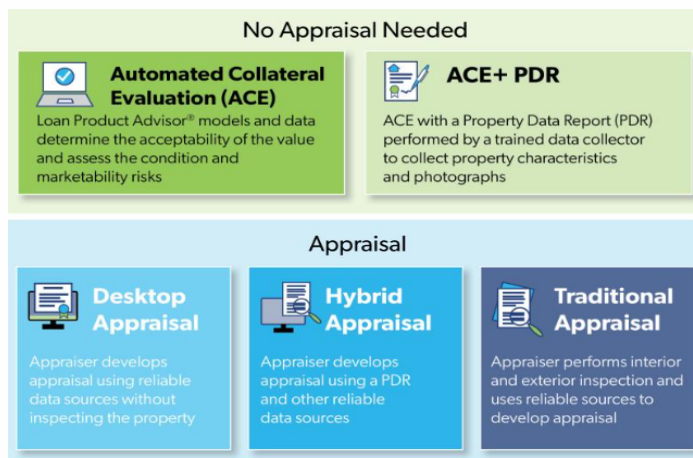


Fannie Mae



Source: <https://singlefamily.fanniemae.com/valuation-modernization#:~:text=Fannie%20Mae%20is%20on%20a,collateral%20and%20the%20loan%20transaction.>

Appraisal Modernization – What?



Freddie Mac



Source: <https://singlefamily.fanniemae.com/valuation-modernization#:~:text=Fannie%20Mae%20is%20on%20a,collateral%20and%20the%20loan%20transaction.>

Appraisal Modernization

Property Data Collectors – Past

- Appraisers have always relied on third-party sources of data
 - MLS, tax records, site plans, building specs, and even property data collectors
- PDC was retained by the appraiser to collect property data – may be another appraiser or a trainee/assistant
- Up to the appraiser to verify the data and to determine the reliability of the information and whether it contributes to credible assignment results
- Third party data collections are common in commercial appraisals



Appraisal Modernization

Property Data Collectors – Present

- Most often used in conjunction with waivers - Value Acceptance+PD and ACE+PDR
- PDR does NOT contribute to an appraisal
- In rare instances the PDC report is used by an appraiser in a 'hybrid appraisal'
- FHA does not have waivers or property data collections (for appraisal purposes)
- VA has the Assisted Appraisal Processing Program (AAPP) – requires the use of a licensed appraiser or appraiser-trainee



Appraisal Modernization

Property Data Collectors – Present

- PDC is retained by an “Approved Vendor”
- “Professionally trained” and “possess essential knowledge”; annual background check
 - GSEs set the minimum training requirements
 - So, what are they?



Appraisal Modernization

Property Data Collectors – Present

- PDC requires “Seller” oversight

Seller oversight of the property data collection

The Seller must have oversight of the data collector performing the property data collection. The Seller, or their authorized third party, must have adequate processes and procedures in place to ensure the accuracy and reliability of the PDR. At a minimum, the procedures must:

- Ensure selection of property data collectors who have passed a background check
- Ensure property data collectors receive comprehensive training that demonstrates the ability to provide an accurate and comprehensive PDR
- Include a process to continuously evaluate property data collectors, including monitoring and documenting their performance to identify and remedy any recurring deficiencies
- Include a process for providing continuing education, when applicable (e.g., any significant changes to either the data set or the property data collection process, etc.), and
- Include a process for discontinuing the use of chronically underperforming property data collectors

The Seller must include a targeted review of PDRs as part of their quality control sampling.



Property Data Collectors – Present

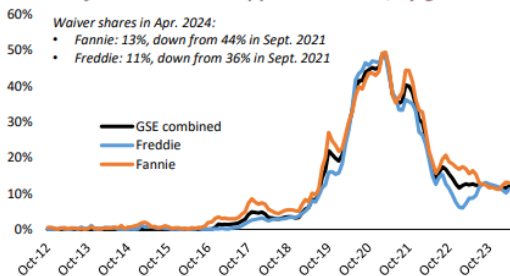
Property data collectors that are not appraisers must be trained in all aspects of property data collection using the Freddie Mac property data set. The training must include instructor led or online training and an exam to ensure the proficiency of the property data collector. The property data collector training curriculum must include, but is not limited to, the following topics:

- Measuring the subject property to produce a floor plan, with dimensions and calculations reflecting the gross living area, including interior walls and representation of any functional obsolescence. In addition, the basement must also be measured to produce a floor plan with interior walls and representation of any functional obsolescence, including dimensions and calculations to reflect the basement square footage. The property data collector must be trained in the use of the technology that produces floorplans with measurements, if applicable.
- Collecting a comprehensive set of subject property photographs, as described in more detail in the addenda for the PDR
- Identification of property characteristics represented in the property data set, including but not limited to:
 - Window types (e.g., single-paned, double-paned, etc.)
 - Foundation types (e.g., basement, crawl space, etc.)
 - Heating and cooling types (e.g., forced air, central air conditioning, etc.)
 - Interior and exterior walls (e.g., brick, stucco, drywall, plaster, etc.)
 - Flooring (e.g., wood, tile, etc.)
 - Shower/bath materials (e.g., tile, fiberglass, etc.)
 - Roof description (e.g., composition, slate, aluminum, etc.)
 - Energy efficient improvements (e.g., solar, etc.)
 - Sewer (e.g., septic, public sewer, etc.)
 - Utilities (i.e., public or private)
 - Outbuilding (e.g., barn, shed, etc.)
- Identification of adverse property conditions that require repairs or alterations, or an inspection by a trained professional to determine if repairs are required, and
- Functional and external obsolescence



How often are waivers and PDR used?

Share of GSE loans with appraisal waiver, by guarantor



Appraisal waiver and new program counts and shares by agency and purpose

April 2024: Counts	Freddie Mac				Fannie Mae			
	Cash-Out	No Cash-Out	Purchase	Total	Cash-Out	No Cash-Out	Purchase	Total
Appraisal	9,380	3,321	63,951	76,652	6,754	2,693	31,226	40,673
Appraisal Waiver plus Property Data Collection - Condition	410	134	1,001	1,545	681	90	343	1,114
Appraisal Waiver plus Property Data Collection - Value	0	0	0	0	409	52	188	649
Waiver	1,248	1,120	7,575	9,944	2,583	1,064	3,655	9,302
Total	11,019	4,575	72,527	88,122	10,428	3,900	37,412	71,740

April 2024: %	Freddie Mac				Fannie Mae			
	Cash-Out	No Cash-Out	Purchase	Total	Cash-Out	No Cash-Out	Purchase	Total
Appraisal	84.9%	72.6%	88.2%	87.0%	64.8%	69.1%	89.2%	84.6%
Appraisal Waiver plus Property Data Collection - Condition	3.7%	2.9%	1.4%	1.8%	6.5%	2.3%	0.6%	1.6%
Appraisal Waiver plus Property Data Collection - Value	0.0%	0.0%	0.0%	0.0%	3.9%	1.3%	0.3%	0.9%
Waiver	11.3%	24.5%	10.4%	11.3%	24.8%	27.3%	9.8%	13.0%
Total	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

GSEs offer waivers or waiver+data in approximately 15.5% of transactions

Source: AEI Housing Center, "Prevalence of GSE Waivers" June 25, 2024



Appraisal Modernization

Property Data Collectors – Future

- Done properly, data collectors could free appraisers to focus on what they do best – market analysis and supported opinions of value
- PDCs could be used more extensively during times when appraisal demand exceeds appraiser capacity
- Likely to see less desktop and traditional appraisals, and more hybrids and waivers (i.e., more use of PDC)



Appraisal Modernization

Another “Modernization” to Embrace – UAD Redesign and New URAR

- GSEs have worked on UAD redesign since 2018
- Align with current MISMO
- Replace forms with a **single, data-driven, flexible and dynamic appraisal report** for any property type



Appraisal Modernization

Another “Modernization” to Embrace – UAD Redesign and New URAR

- Enhance how appraisal information is captured, organized and reported
- Prompt oriented in appraisal software
- Elimination of “Addenda”
- Watch for the Appraisal Institute’s seminars on the new URAR. The first is *The Appraiser’s Guide to the New URAR* debuting in Q1 2025.
- Testing by appraisers of the new URAR begins in Q3 2025, mandatory usage by the end of 2026.



Appraisal Modernization - Problematic Changes



Modernization - Problematic Changes

Further reliance on ACE(+PDR) or Value Acceptance(+PD)

- GSEs can ratchet up the number of waivers(+PDC/R)
- FHFA announcement 10/28/2024; Waiver eligibility expanded to include purchases up to 90% LTV; Waiver + PDR expanded to include purchases up to 97% LTV.
- Appraisers must have an option to reject a PDC report as unreliable and do their own inspection
- Appraisal trainees should get credit for the PDC function



Modernization - Problematic Changes

Market and Borrower Confusion About PDCs – 2023 NAR Study

- **Impersonation:** 30 percent reported a data collector had implied they were the appraiser or had a role other than merely collecting data
- **Safety:** 51 percent had safety concerns about unlicensed PDCs
- **Data Privacy:** 65 percent expressed concerns about the privacy of the data, floorplan, scans, and images collected
- **Data Quality:** 76 percent perceive the quality of data collected by PDCs to be lower than that collected by appraisers
- **Licensing:** 90 percent believe PDCs should be licensed



Modernization - Problematic Changes

Use of Unlicensed/Unregulated PDCs

- Standardized training and experience requirements are unclear
- Requirements vary by service provider
- No accountability except to provider (Seller to GSE)
- Holes in the background check requirements



Modernization - Problematic Changes

Use of Unlicensed/Unregulated PDCs

- The Appraisal Institute has created “Model Legislation for the Oversight of PDCs” – optional for those chapters that want to pursue a state legislative effort
- The model legislation is known as the ***Property Data Collector Licensing and Property Data Collection Company Registration Act***

○ Purpose of the Act

This Article safeguards the public health, safety, and welfare and protects the public from being harmed by unqualified persons by regulating the use of the title “Property Data Collector” and “Property Data Collection Company” and by providing for the licensure and regulation of those who perform property data collections for compensation and for the registration and regulation of entities that manage the process of property data collection.



Modernization - Problematic Changes

Lack of Practitioner Access to GSE Data

- GSE's UCDP has collected data on millions of residences
- Gold Standard – data in the UCDP is provided by appraisers based on an on-site viewing of the property
- Practitioners do not have access to the UCDP's robust data on a property-by-property basis – Why?
- GSEs should provide data to practitioners with security provisions to strip or mask Personally Identifiable Information (PII)
- Result is an immediate increase in appraisal quality and support for value opinions



Modernization - Problematic Changes

Data Cancer in GSE AVMs

- G-I-G-O; for example, unverified 'sale' data
- Incomplete, outdated, or inaccurate data results in unreliable valuation
- Unreliable value estimates in inactive and low volume markets



Modernization - Problematic Changes

GSE Reliance on AVM (Model) Output as “The Answer”

- GSEs say CU/HVE (models) support appraiser’s judgement
 - “Ensuring the appraiser utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion”
- However, there is a tacit implication that GSE’s AVM value supersedes appraiser’s value



GSE Reliance on AVM (Model) Output as “The Answer”

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Findings

Black borrowers refinancing their home on average received a slightly lower appraisal value relative to automated valuation models, according to an analysis of 1.8 million appraisals conducted as part of refinance applications in 2019 and 2020. At the same time, white borrowers refinancing their home on average received a slightly higher appraisal value relative to the models. This was true for homes in both majority-white and majority-Black neighborhoods.

Homes owned by white borrowers were more frequently overvalued than homes owned by Black borrowers. Overvaluations of white-owned homes were present at a higher rate in all neighborhoods, but were more likely to occur among homes owned by white borrowers in majority-Black neighborhoods. **Overvalued equates to an appraised value at least 10% higher than the automated valuation models.**



Modernization - Problematic Changes

GSE Reliance on AVM (Model) Output as “The Answer”

- Appraisers often feel pressured to conform to CU/HVE (model’s) output
 - Violation of appraiser independence?
- Comparable sale outputs are often inappropriate



Questions?

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