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November 3, 2021

Secretary Marcia Fudge
Co-Chair, Property Appraisal & Valuation Equity Task Force
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

RE: Recommendations for the Interagency Task Force on Property Appraisal and Valuation Equity (PAVE)

Secretary Fudge and members of the PAVE Task Force,

The Housing Policy Council¹ (HPC) submits for your consideration a set of ideas and recommendations for home valuation policy and practice improvements (see attached), to support the work of President Biden’s Interagency Task Force on Property Appraisal and Valuation Equity (PAVE). Our association is uniquely positioned to offer input on this critical effort because we represent a diverse set of industry stakeholders, including lenders and servicers, Appraisal Management Companies and appraisers, mortgage and title insurance companies, and data and analytics firms. The mutual interest of these organizations is well-aligned with that of PAVE task force members – to identify and address disparities in residential appraisals through collective action.

HPC members fully support both the letter and spirit of the Fair Housing Act as well as other federal civil rights and fair housing laws, dedicating substantial resources to ensure that all credit and collateral decisions for home loan applicants are made without regard to race or other prohibited bases. As such, HPC members fully embrace the PAVE Task Force’s goal of “root[ing] out discrimination in the appraisal and homebuying process.”²

We believe that the success of PAVE will likely depend on the clear identification and understanding of the causes of disparate outcomes in the current system and appreciate that the task force members are carefully and deliberately compiling information to fulfill this

¹ The Housing Policy Council is a trade association comprised of the leading national mortgage lenders and servicers, mortgage and title insurers, and technology and data companies. HPC advocates for the mortgage and housing marketplace interests of its members in legislative, regulatory, and judicial forums. Our interest is in the safety and soundness of the housing finance system, the equitable and consistent regulatory treatment of all market participants, and the promotion of lending practices that create sustainable homeownership opportunities in support of vibrant communities and long-term wealth-building for families. For more information, visit www.housingpolicycouncil.org

² Fact Sheet: Biden-Harris Administration Announces New Actions to Build Black Wealth and Narrow the Racial Wealth Gap (June 1, 2021).

objective. Therefore, to assist PAVE members in the collection of feedback from experienced practitioners in the collateral valuation field to support evidence-based analysis, the attachment provides our recommendations. We also request a meeting to discuss these concepts further.

The PAVE industry and advocacy listening session served as a very useful forum to respond to the task force member questions and propose policy alternatives for consideration and we appreciate the opportunity to participate. However, we do think that it would be very helpful to spend some time discussing the ideas with a small group of stakeholders representing various parts of the industry, as our members do, and hope that we can schedule a meeting with the task force to expand upon the set of recommendations attached here. We will follow up with this request, but if a task force representative would like to reach out to us directly, please call Meg Burns, HPC EVP, at 202-589-1926.

Yours truly,

A handwritten signature in black ink that reads "Edward J. DeMarco". The signature is written in a cursive style with a large, stylized 'E' and 'M'.

Edward J. DeMarco
President
Housing Policy Council

Housing Policy Council – Recommendations for Property Appraisal & Valuation Equity (PAVE) Task Force

The HPC recommendations presented below are categorized in accordance with the PAVE objectives listed on HUD’s PAVE Task Force web site, as follows:

PAVE - Core Objectives guide how the Task Force will drive change (both individual agencies and the collective Task Force). The Task Force Members will work together and consult with civil rights organizations, advocacy groups, industry, and philanthropic entities to drive change by:

- **Data Dissemination & Research:** Coordinating efforts to evaluate and identify the extent of, causes and factors that contribute to the persistent misvaluation and devaluation of assets. This includes evaluating issues related to biased appraisals in mortgage transactions and Automated Valuation Models (AVMs).
- **Policy & Guidance:** To the greatest extent feasible, coordinating agencies’ guidance, enforcement efforts, and monitoring authority. This may include reviewing of valuation related authorities enforced by federal entities, determining areas of commonality and conflict, and creating a framework for appropriate information sharing among agencies with enforcement authorities regarding coordinated enforcement and compliance, respecting enforcement independence.
- **Enforcement & Compliance:** Leveraging the authority of the Appraisal Subcommittee to strengthen oversight of the Appraisal Foundation, encourage diversity of State Appraisal regulatory agencies, and create opportunities for transparent data sharing.
- **Data Collection & Reporting:** To the greatest extent feasible, coordinating data collection and reporting, maintaining data repositories (contingent upon feasibility and legal opinion).
- **Coordination:** Recommending and implementing actions within agencies’ authorities, including concrete steps that federal, state, and local governments and industry will take as expeditiously as possible.

Topic	Challenge	Possible Solutions	Rationale
Policy & Guidance/Diversity in the Industry			
Expand the Number of Appraisers	a. In certain areas of the country there are insufficient numbers of appraisers to satisfy the current order volume b. Limited capacity is increasing the costs of appraisals in certain markets.	a. Dedicate resources to recruitment and hiring of more, and more diverse, appraisers. b. Mandate nation-wide adoption of Practical Applications of Real Estate Appraisal (PAREA) programs and secure funding for this critical alternative. Private sector contributions or ASC fee income could	Expanding the population of appraisers, while also transitioning to a more diverse workforce that is reflective of the communities in which appraisers work, could help to a) address the constraints that are increasing costs and demands on overworked appraisers and b) counter the persistence of unconscious or intentional bias with an increase in overall capacity. Regarding alternative approaches to fulfill experience requirements, PAREA was adopted in 2021 as a way to prepare appraisers for the

		be directed toward additional research and development of PAREA programs for a “no experience required” method for obtaining a license or certification (e.g. virtual, simulation techniques).	profession without burdening the dwindling population of appraisers to train and mentor new entrants. Unfortunately, this alternative method to achieve “experience” has not been adopted across all 50 states. With limited demand for the alternative approaches, funding for the construction of the technology platforms needed to offer the programs has been limited as well; in other words, the economics for this alternative are poor, without a more expansive mandate.
Address Diversity of Profession - Evaluate and Modify Licensing and Certification Requirements and/or Ways to Fulfill Requirements	<ul style="list-style-type: none"> a. Today’s appraiser population is predominantly older, white males (Bureau of Labor Statistics). b. Licensing /certification requirements to become an appraiser may be inadvertently deterring or excluding well-qualified candidates c. Experience requirements, even if appropriate, may be difficult to achieve if apprenticeships are not readily available. d. Certification requirement for FHA and VA constrain availability of appraisers for this historically underserved segment of market, resulting in higher rejection of purchase transactions. 	<ul style="list-style-type: none"> a. Dedicate resources to recruitment and hiring of diverse appraisers, consistent with Appraisal Institute Diversity Initiative. b. Assess and establish alternative approaches to satisfy licensing or certification standards. c. Establish alternative means to identify, secure, and/or complete apprenticeship requirements. d. Per above, mandate and fund PAREA programs and research to develop tools. e. Update statutes to permit licensed or certified appraisers for FHA and VA 	To expand and diversify the population of appraisers quickly, the education and experience qualification standards could be modified OR retained as-is with an associated change in the various methods used to fulfill the mandatory hours of education and experience.
Policy, Guidance, and Regulations			
Adopt Industry-wide Valuation Alternatives, Relying on Technology and Data	Appraiser skill set is performing analysis of property information, yet time to conduct the appraisal includes travel to sites for data collection, which could be eliminated in some cases and performed by another individual in	Adopt valuation continuum, based on transaction risk – lowest to highest: <ul style="list-style-type: none"> a. appraisal waivers b. appraisal waivers with inspections c. AVMs (automated valuation models)* 	A shift to reduced reliance on individuals to perform the full interior-exterior appraisal will naturally moderate any intentional or unconscious bias. The use of alternatives, based on risk of the transaction (property and credit considerations), embraces the innovations and improvements in valuation methodologies that have resulted from better use of data and analytics. With the

	<p>others. Focusing human resources on critical analytic work and relying on data and technology for compilation of property-specific input should improve the professional experience, quality and consistency of information, and naturally reduce unconscious bias.</p>	<p>d. Evaluations - AVM with physical inspection e. Desktop appraisals f. Alternative appraisals: desktop and probable condition g. Hybrid appraisals: desktop and interior inspection by non-appraiser h. Exterior appraisals i. Interior appraisals * see below for AVM standards</p>	<p>substantial developments in technology and innovation, there are a significant number of acceptable valuation approaches to establish an accurate opinion of value, all of which are and should continue to be subjected to fair lending testing. Use of alternatives will also increase the capacity of the existing appraiser workforce as drive and inspection times are eliminated in many valuation scenarios.</p>
<p>Publish AVM Standards</p>	<p>The use of AVMs can serve as an effective data-based, objective alternative to appraisals and/or serve as a “check” on the accuracy of the appraiser’s opinion of value, but the lack of uniform standards for all AVM tools complicates reliance on this technological solution.</p>	<p>Publish interagency AVM standards, (required under Dodd-Frank) which should include bias measurement techniques and thresholds, to enable AVMs to mitigate bias against protected class members. These standards would support use of AVMs as part of a valuation continuum.</p>	<p>AVMs offer the opportunity to a) rely more on data and less on any potentially biased perspective of an individual and/or b) to use the tools as a means to identify possible bias. Given the growth in the use of AVM tools and evolution in the models, it would be beneficial for the standards to create uniformity and provide additional transparency to compare the features of various AVMs as well as their reliability and efficacy.</p>
<p>Establish industry-wide standards for Reconsideration of Value Process</p>	<ul style="list-style-type: none"> • Customers may not be aware that they can request an ROV. • There is no uniform, industry-wide set of standards for the ROV process. • If the ROV is rejected, there is no consistent approach for determining the final resolution of the value dispute. 	<p>A standard ROV approach should be established, outlining the role and responsibilities of the lender, AMC, and appraiser. The standard ROV procedures should stipulate: a) information that must be collected, analyzed, and shared between parties; b) time frames in which requests should be considered and actions completed, and c) centralized tracking of the requests and resolution. Rules should include when a second appraisal is preferred and/or permitted. Information should be provided to the customer when the appraisal is ordered, to ensure that they know how to request an ROV in advance of receiving the report.</p>	<p>The ROV process is intended to allow a homeowner/buyer or other stakeholder the opportunity to question the opinion of value, based on valid, alternative comparable sales or other legitimate property information. However, the lack of uniformity in the process itself - including the limited understanding regarding the responsibilities of the parties and appropriate resolution - creates inefficiencies, confusion, unsettled / unanswered discrepancies in the value consideration. To ensure that this critical process can fulfill the objective, to address consumer complaints and particularly discrimination complaints, the industry needs clarity, uniformity, and transparency.</p>

Create Undervaluation Flags in GSE Collateral Tools and Other Technology Platforms	Technology tools today are tuned primarily to warn lenders of risk related to overvaluation. Without an efficient means to recognize risks factors that drive potential undervaluation, parties to a lending transaction must rely on manual identification and requests for review of appraisals to discern and evaluate any problems.	As a first step, require the GSEs include an undervaluation flag in the collateral management software to identify appraisals with risk factors that indicate a property is potentially undervalued. Over time, learnings from the GSE flag should be used to update other valuation technologies, as appropriate.	An undervaluation flag could help to identify unique cases as well as patterns of undervaluation that are potentially occurring, which will allow for remedial actions. GSEs should also develop consistent guidance that sets expectations for handling of these cases, by appraisers, AMCs, and lenders.
Establish Option for Independent Physical Inspection	Given the subjective nature of the valuation process, interactions between the homeowner/ occupant or borrower may contribute to bias, conscious or subconscious.	Test and adopt a bifurcated process for physical inspection of the property performed by a separate party, other than the appraiser, to remove appraiser interaction parties to the transaction. This could include 3 rd party inspectors or tools that allow a remote or virtual inspection facilitated by the occupant, agent, or other party	To remove or minimize the risk of bias from the appraiser's analysis of the physical inspection of the property and the ultimate opinion of value, the physical inspection of the property and collection of property information could be performed by a third-party, separate from the appraiser and provided to the appraiser. This option would also likely increase the capacity of the existing appraiser workforce, eliminating drive and inspection time.
Data Collection & Reporting / Data Dissemination & Research			
Release GSE Uniform Appraisal Dataset	The rich dataset of property information compiled by the GSEs has enabled them to develop risk management tools – tools that can identify risks or variations in valuations that require additional review and permit remedial action, as appropriate.	Develop plan of action for release of GSE property data set	The release of this information would allow for a substantial improvement to and/or development of new valuation risk management tools and techniques in the open marketplace, which constrained today, as well as better research and assess the accuracy and implications of historical valuations in various markets.
Support GSE Efforts Underway to Update Uniform Appraisal Dataset (UAD) and	<ul style="list-style-type: none"> a. Today's free-form text data fields, required to communicate a valuation analysis, are not standardized or uniform across investors. b. The freeform text fields in the existing appraisal form permit variability and allow potential biases to go unnoticed. 	<ul style="list-style-type: none"> a. Continue GSE appraisal form update and engage industry stakeholders throughout the process, to stay apprised of status. b. Establish a data collection technology requirement, with standard data fields and definitions for all appraisals 	Uniformity of data, mandated through industry-wide data standards will allow for tracking and trending to identify patterns and practices of bias in the industry.

Collection Standards	c. Data compilation is not uniformly supported with technology, to ensure every appraisal is executed the same way, e.g., square footage measured with standardized technology versus a tape measure	c. Once complete, mandate the GSE data set as the industry-wide standard for all investors d. Make the data collection technology a requirement for all investors	
Conduct Appraisal Bias Research	The potential scope and extent of possible appraisal bias is just beginning to be defined. The possible bias on single properties is different from undervaluation of entire neighborhoods. Understanding the nature of the problem is necessary to develop the most suitable solutions.	Objective and comprehensive research by HUD, FHFA, the GSEs, and other government or private researchers and stakeholders is critical for a better understanding of the issues. Freddie-published research is first to rely on actual appraisals, looking at subject properties and comparables as well as appraisers. More of this type of research is critical.	The best policy approaches can be developed only with a full appreciation for the nature of the problems to be solved, including the scale and root causes for the problems.
Enforcement & Compliance			
Address Fragmentation in Regulatory Regime / Realign and Enhance Appraiser Monitoring and Oversight	a. Dedication of resources at the state level for appraiser oversight is often inadequate, which constrains effective identification of deficient practices and /or appropriate enforcement actions. b. Fragmentation of oversight between various Federal regulatory bodies creates gaps in oversight. c. Distinct statutory authorities of ASC and Appraisal Foundation contribute to fragmentation.	Pursue legal authority to establish a more cohesive regulatory framework that will enable identification of and sanctions for noncompliant or deficient practices as well as poorly performing appraisers.	If appraiser bias is identified today, the ability of a counterparty as well as a regulatory body to take action is limited and/or hampered by the existing fragmented framework. This includes challenges for lenders subject to Appraiser Independence rules).
FHA / VA	FHA and VA impose minimum property requirements for homes to qualify for FHA or VA financing. The practical impact conflicts with the	MPRs are outdated and misaligned with the uniform residential appraisal report (rely on an addendum) and should be eliminated.	Elimination of a barrier to FHA/VA loans, the most commonly used form of affordable financing for individuals and households of color, would expand access to credit for traditionally underserved borrowers.

Minimum Property Requirements	good intention of the MPRs - to protect the health and safety of the homeowner. Sellers and agents reject FHA/VA offers in favor of conventional financing, knowing that the MPRs can delay the purchase contract or closing.	The unique property standards trigger a unique appraisal process, which should be eliminated to provide equal access to financing for all consumers.	
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