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ASA Op-Ed Discussing FHFA's Allowing Fannie Mae to Expand its Appraisal Waiver Program

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Over the past month, the chorus of voices expressing concern over Fannie Mae's shift away from appraisals as the default collateral valuation option – and toward “value acceptance” with or without additional property data – has been deafening. Coupled with the long-awaited rollout of the updated Uniform Appraisal Dataset, or UAD, it is clear what direction Fannie is headed going forward – data and models, with less learned human interaction informing the process.

More importantly, Fannie is leaving behind two very critical aspects of mortgage lending: Safety and soundness and consumer protection.

Let's start with safety and soundness. The shortest path to diluting safety and soundness is to lend amounts on homes where no independent assessment of collateral value has occurred. While some might argue that models with adequate data can provide nearly the same level of visibility into home values, it ignores the experiential component of walking into a home and noticing elements that will affect value in either direction and accounting for them correctly.

The fear becomes one of overvaluation through reliance on models that always try to chase value upwards but struggle in flat or declining markets. Models will lag adverse changes to the market, leaving those last to the party most precariously perched – too much leverage against a less valuable asset than borrowers and lenders realize. Remember that in the last housing crash, an 85% LTV loan became, generally, a 115% LTV loan virtually overnight. We have seen abrupt swings before, and while many point to the numerous reforms around mortgage lending as precluding a similar inversion, the hypothesis has yet to be tested. (The pandemic, which should have stressed mortgages, was offset by a raft of government interventions, sparing additional pain at a moment where enough existed already.)

Compounding the problem is that with “value acceptance”, there is no warrant and rep relief for Fannie Mae when, not if, the markets turn. This means once again the taxpayer will be left holding the bag for Fannie's injection of unnecessary risk into the housing finance market, all based on the hedge that models and poorly trained data collectors can replicate the longstanding work of appraisers. In the end, there is no risk to Fannie, so what risk exists at all? Aside, of course, from repeating mistakes of two decades prior, allowing loans to be made and sold on specious information.

As for consumer protection, there is NONE left in the home buying process. Agents and brokers have a direct financial incentive on seeing deals consummated for the highest possible selling price thanks to percentage-based commissions. Home inspectors are inconsistent at best, and more buyers are waiving inspections as part of sweetening offers and accelerating closing timelines. And mortgage originators want velocity, hoping to turn out volume through lending pipelines and across to the secondary market to capture as much margin as possible per loan.

The only safeguard left to homebuyers was – and is – an appraiser looking at a property from an objective perspective and expressing a professional opinion as to the home's value as collateral to the mortgage being underwritten. No other party has reason or incentive to provide objective information to the homebuyer, and the move to “value acceptance” simply delegates this once critical role to the decision making of homebuyers being guided by interested parties, a recipe for subsequent disaster.

The UAD, both in its prior and future form, also does little to help homeowners understand their home's value even where an appraisal is ordered. UAD is designed for the benefit of the GSEs and their various models – seeking data consistency and granularity regardless of whether it contributes to a more accurate opinion of value. In fact, the opposite could be argued considering how the UAD and its companion forms are designed to rely almost exclusively on the sales comparison approach – a approach that, through the extensive conversations around bias and undervaluation the last couple of years, has significant deficiencies.

Considering the direction Fannie is taking, using the word “appraisal” in UAD isn't quite right, since much of the data will never go in front of an appraiser in their new vision of the future. A better word is “assembly”, like an assembly line for speedily delivering mortgages from idea to execution as fast as possible. All that is being asked now by Fannie is that the data exist, in the manner they proscribe, whether it ever meaningfully contributed to the underwriting process.

The last two years have seen the esteem of the appraisal profession fall further than could have been imagined, with the conversation of bias and discrimination exposing hard truths about some individuals who perform appraisals and the underlying data they rely upon when fulfilling GSE-directed requests to blindly adhere to one of the three approaches to value. While there may be different views as to the impact of bias on home values, there is work underway to address these concerns and build a more diverse appraisal profession going forward.

It feels almost too convenient, though, to see this pivotal change from Fannie come at a moment where the public's opinion of appraisers is near the low water mark. By obviating the appraisal from the mortgage process entirely, not only are homebuyers left unprotected and mortgage markets injected with new and unknown risks, but the efforts to address inequalities in how homes are valued and to diversify the profession are cast aside before these labors bear fruit. It is disingenuous at best for federal agencies, such as Fannie's conservator FHFA, to ask for change and then not allow change to happen.

Identifying and addressing bias and discrimination issues does not mean the broader idea of seeking an independent opinion of a home's value as part of the homebuying process is worthless. As we continue to see technology, and especially artificial intelligence, infiltrate our lives and blur the lines between real and fake, demanding some level of humanity in our most consequential of choices is more than reasonable – even and especially where we recognize the human element has faults and flaws. There will never be perfection in any profession, let alone in appraising, but we continue to strive towards improvement because of the value to be had from the journey.

This change – pushing aside human roles and replacing them with machines – was a slow change that happened quickly, but we see it in all aspects of life. Self-checkout lines and ordering kiosks are faster and provide consumers with more control. Most of our buying now happens through online storefronts, with the only person we ever see being, maybe, the delivery person who brings the package to our home. We interact with our friends, family, and peers more through screens and social media than we

do in person. And we convince ourselves that this is all somehow better for us personally and as a society.

To remove the last shred of independent, objective human perspective from the mortgage process – however imperfect it may be – follows the trend we've all been living for some time. But somehow this change feels more meaningful, as though an inflection point has been reached. Perhaps it comes down to knowing all the men and women whose livelihoods are negatively affected by this change and what it means for them personally, not unlike the buggy whip makers over a century ago. Maybe it is the impersonalization of homebuying, down to a simple exercise in getting what we want when we want it - no matter whether we can, or should, or its affects on others writ large should markets turn.

For whatever reason, something feels so inherently *wrong* about Fannie's direction, so detached from how we can and should view the homebuying process; one of relying on trusted professionals, members of our community, to help us make an informed decision that will impact much of the rest of our lives. Now, it is another box to be checked, a thing to be done, regardless of the answer to the bigger question of "should we?".

For appraisers, the future is clearer than ever: Work directly with buyers who still care to know what their home is worth, without the encumbrance of overdesigned forms and datasets. Find non-lending work in its many forms. Perhaps upgrade one's credential or seek a designation to grow professionally. And, most importantly, keep the perfectly imperfect humanity to the question of value while always seeking to do better at how it is answered and for whom the answer is sought.

About the Author



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