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Spring brings big change - by Bill Pastuszek

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The appraisal profession – in particular, residential mortgage appraisal – is undergoing a significant period of change and upheaval. Much of this change is being imposed upon the profession from without. Some wonder if the profession, through its glacial pace of evolution, has brought many of these changes – considered unwelcome by many in the profession – upon itself, and by being resistant to change, has ceded control of the appraisal process and the role of appraisers to users.

Some major developments facing the profession include changes to USPAP to enable appraisers to better deal with allegations that some appraisers are practicing racial discrimination in appraisal. Changes in education requirements are contemplated to require more robust education regarding bias and discrimination, and changes in secondary market requirements regarding reporting and the role of appraisals in the mortgage lending process.

Fannie Mae's latest initiative expands its Appraisal Waiver Program. Fannie Mae states the following on their website: "[We] are transitioning to a range 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."

Fannie Mae continues: "Value acceptance is being used in conjunction with the term 'appraisal waiver' to better reflect the actual process of using data and technology to accept the lender-provided value. We are moving away from implying that an appraisal is a default requirement. [Emphasis added.] (Note that we are using 'value acceptance (appraisal waiver)' for a period of time and will eventually move to 'value acceptance' after the market absorbs this change.)"

In a nutshell, the options proposed are as follows:

? "Value acceptance + property data is a new option that utilizes property data collection by a third party (competency to be verified by lender) who conducts interior and exterior data collection on the subject property." The property data collection is used by the lender to confirm property eligibility, and an appraisal is not required but Fannie Mae database submissions are.

? "Hybrid appraisals (for certain transactions) are based on interior and exterior property data collection by a vetted and trained third-party that is provided to an appraiser to inform the appraisal."

Two appraiser associations – American Society of Appraisers and Mass. Board of Real Estate Appraisers – submitted detailed letters that raised comprehensive concerns about the impact of the changes. In particular, they pointed out the lack of consumer protection that would arise as a possible consequence of these major changes.

The Appraisal Institute noted in a press release: "Fannie Mae on March 1 updated its Selling Guide to include a range of options for property valuations as the government-sponsored enterprise moves away from suggesting that an appraisal is a "default requirement." Fannie notes that home valuation options include value acceptance, value acceptance plus property data and hybrid appraisals."

To summarize, a system is being created that replaces the need for traditional appraisal in many instances, using various methods to do so, including a property inspection platform plus technology-based valuations, thus removing appraisal from the valuation process.

It seems odd that this initiative, which essentially aims to sideline appraiser input over the near term, converges with AVM based and other virtual valuation technology. The changes are taking place quickly: the timing is almost too convenient – a perfect appraisal storm. And it represents potentially bad news for consumers, who may lose the ability to have their home purchasing and equity decisions moderated by professional human beings.

Also, simultaneously, the profession is being pressured by regulators, consumers, lenders to address ongoing allegations of discrimination, racism, and bias. Without doubt, the profession hasn't been nearly as responsive as it could be. Unfortunately, the issue is also being taken out of the hands of appraisers. Solutions are being imposed from outside. More unfortunately, the reputations of many fine appraisers and regard for the services the profession provides to its public, have forever been tarnished.

To me (an appraiser and reviewer) and many others that are not appraisers, the appraisal process is grounded in solid economic theory. Its implementation and reporting bear improvement. There are clear issues with the transparency of appraisal: improving transparency is very overdue.

Many of the changes that are being imposed on the profession are likely to reduce the effectiveness of the process and weaken the position of the appraiser as one of few truly disinterested participants in loan transactions. If this is so, much will be lost, as appraisals, for all their faults, have provided a mostly effective means of controlling abuses arising from faulty, fraudulent valuation.

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