Fannie Mae, Freddie Mac, and appraisers - by Bill Pastuszek

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The secondary residential mortgage is a vast enterprise which encompasses many lenders, appraisers, borrowers, and investors. While Fannie Mae (Fannie) and Freddie Mac (Freddy) are not the only secondary market conduits, what they decide to do tend to inform the entire residential mortgage.

The “guidelines” that are issued (The GSEs are fond of reminding everyone that they are just that, guidelines) take the force of law and become the rules of engagement for lenders and those appraisers that choose to do mortgage lending appraising.

Let’s talk about the 1 mile “guideline.” Appraisers will try as hard as possible to stay within the 1-mile radius and within the time limit for comparable selection, lest questions are raised by reviewers and underwriters and appraisal revisions are required. The problem here is that the guidelines are necessary to achieve some minimum standard; appraisers need to be willing to explain comparable selection much better than is currently done. The usual selection criteria are “the comparables selected are the best available,” a vague and not very useful phrase. This limit on scope of work may well violate USPAP. But appraisers need to do better in many cases to defend their comparable selection as well being able to support location adjustments and market conditions (time) adjustments. This guideline as well as date of sale guidelines may well have an effect on valuations that are labeled discriminatory.

Fannie Mae’s March Newsletter was eye catching and engendered much discussion without much resolution except that appraisers for the most felt that their role in the valuation process going forward might be curtailed. The following is a brief excerpt.

“We are moving away from implying that an appraisal is a default requirement.” This is the key phrase that caught everyone’s attention.

Further, “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.” Here again it sounds like the appraiser’s role is going to be limited going forward.

The newsletter continues by saying, “Note that we are using ‘appraisal waiver’ for a period of time and will eventually move to ‘value acceptance’ after the market absorbs this change.” The meaning of this – “after the market absorbs this change” – is not exceedingly clear. It sounds that some form of non-appraiser “value acceptance” will take place once parties get used to a different way of valuing properties. Appraisers will be only part of the choices that lenders can make in obtaining valuations.

This could be worrisome in the future. Right now, this kind of change and a move towards hybrid appraisals doesn’t apply across the board of residential lending choices, but it could well be applied more broadly if the GSE and clients judge it to be efficacious.

More recent newsletters indicate that Fannie Mae is going deeper and deeper into technology, enabling enhancements in valuation and underwriting processes. For instance, a.) Fannie Mas is utilizing software technology to scan for possible bias language in reports. b.) AI and software technology is being utilized by utilizing MLS and other available image resources to check quality and condition ratings appraisers are applying to both subject and comps. c.) Fannie illustrates a comparison of their model comparable adjustments as compared to in the field appraisers' adjustments. This is achieved by employing an adjustment algorithm that apparently is proprietary and not being shared.

With regard to c.), this looks a lot like a "black box" argument. In and around the discussion of the accuracy of appraiser behaviors and the appraisal process, the lack of transparency and the inability to reproduce the results of analysis and research is often raised, resulting in what is known as the "black box that is appraisal." Here, FNMA engages in the same "black box" syndrome.

This goes back to the introduction of the Uniform Dataset (UDC), another black box where appraisal behavior is the target of the platform, yet appraisers have no insight into it or any input.

Many who are in the loan business today weren't there during the Great Recession. Maybe it doesn't matter today, but the result of that greed driven debacle in the pursuit of profits from residential borrowers was improvements that created greater appraiser independence, the result of which was better appraisals that protected the consumer and the originator. Perhaps the time to provide that protection is no longer necessary. I disagree. The appraisal process, as imperfect as it is, is the best means available to ensure fairness and equity in real estate markets. Until it is replaced with something that is unquestionably better, it should not be degraded.

These changes are here; they are probably not going away. The changes are going to create much bigger problems in the not too distant future.

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