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The American Society of Appraisers wishes to express its deep concerns with the proposed changes to appraisal requirements, as set forth in a report by the Treasury Department on July 31. The report's main conclusion, to urge broader usage of automated valuation models (AVMs) and hybrid appraisals to expedite collateral valuations and reduce costs to homebuyers, overlooks several aspects of the homebuying and collateral valuation process. The proposed changes are likely to have a negative effect on prudent lending and sound valuation practices, as well as on the protection of homebuyers.

Appraisers have long been at the forefront of adopting technologies to make their businesses more efficient and their appraisal reports more accurate. Form completion software, online property information databases, regression analysis and modeling tools, and online appraisal ordering and invoicing platforms are prime examples of ways the appraisal profession has modernized the way appraisals are performed and reported in order to be responsive to market changes and to meet the needs of clients and other parties who rely on appraisals.

Unfortunately, all the time and cost savings that would normally result from the efficiencies created by appraisers are being consumed by other aspects of the collateral valuation process:

- One state appraiser coalition, VACAP, found that, on average, it took 9 days after the contract was signed for the lender to order an appraisal directly from an appraiser. For those ordered by appraisal management companies (AMCs), that delay doubled to 18 days. This is time lost between the contract date and the closing date, and completely out of the appraiser's control.
- Once appraisers receive an order, appraisers have to sort through voluminous assignment conditions from various parties, such as the lender, the AMC, government loan guarantors, and the government sponsored enterprises (GSEs), all of whom have separate requirements for appraisals that may apply when extending credit. Rather than tailor an order to the loan product a homebuyer is most likely to use, the lender or AMC takes a "catch-all" approach to ordering. While this ensures one appraisal can be used for almost any lending scenario, it adds time and complexity to the assignment, often without any commensurate increase in the appraiser's compensation.
- Even after an appraiser completes an assignment, they often must respond to requests for revisions or reconsideration of their opinion of value, usually spurred by quality control tools offered by the GSEs. Most frequently, these changes do not result in a material change in the opinion of value and are usually completed by the appraiser without further compensation offered or received. This takes time away from the appraiser's next assignment and has a cascade effect going forward.

Rather than work to address these systemic issues that contribute to the time and cost to develop an appraisal report, the Treasury report would instead like to see greater use of appraisal waivers, AVMs, and hybrid appraisals. While each of these alternatives may be fine in well defined, acute circumstances, they cannot be true replacements for the work of a locally situated field appraiser:

- In the case of appraisal waivers, these often rely as much (if not more so) on the creditworthiness of the borrower to inform the risk profile involved and whether the GSEs will purchase the loan without an appraisal. While underpinned by prior subject and comparable appraisal data, waivers by their very nature can only operate for a certain percentage of lending and in certain areas where homogeneous properties transact regularly.
- With AVMs, they suffer from the same property homogeneity and data regularity faults as a credit-integrated waiver platform, but with the addition of a layer of opacity. While the AVM relies on a range of algorithms to reach a value conclusion, these algorithms are the product of human programmers who will impose their own inherent, implicit biases and preferences into the modeling. Once behind the AVM, however, it is hard to confront those preferences and to seek reconsideration of value.
- Hybrid appraisals – the newest product in the collateral valuation space – have obvious shortcomings inherent in a nascent approach. In the current environment, there is no formal criteria – either in terms of training or oversight during the data collection process – in determining competency when hiring third parties to conduct inspections to collect subject property information and provide images. Indeed, these may be unlicensed, uninsured individuals going into a person's home without formal training. Beyond the data collection challenges, however, lies the fact that the appraiser who completes the appraisal and does the analysis could be tens, or hundreds, or thousands of miles from the subject property. It is hard to justify the use of an individual at such a physical remove from a community. In fact, the Uniform Standards of Professional Appraisal Practice (USPAP) makes locational competency a key factor in appraisal practice. Using appraisers that lacked locational competency was an identified factor in the run up to the housing problems during the Great Recession.

In short, the solutions have as many inherent problems as those identified by the Treasury report regarding traditional appraisals. ASA believes that, through work with lenders and GSEs, many of the time-consuming overlays and delays can be reduced, resulting in faster delivery of reports without sacrificing quality. Work is ongoing to both modernize the forms used for appraisal reports submitted to the GSEs and on ways to use current technological solutions to make the appraisal process more efficient.

To use flawed alternatives without first maximizing the current appraisal process is troubling, and runs counter both to the need for safety and soundness in the transaction as well as to the protection of the homebuyer – who, in many instances, is making the single largest investment of their lifetime.

ASA is happy to work with its industry partners and Treasury to find more immediate solutions that improve the appraisal process and look forward to our continued evolution as a 21st century profession. If you have any questions or wish to discuss ASA's views further, please contact John D. Russell, JD, Senior Director of Government Relations and Business Development at 703-733-2103, or by email at jrussell@appraisers.org.

Sincerely,

American Society of Appraisers