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MORTGAGE BANKERS ASSOCIATION

Testimony offered on behalf of:
Mortgage Bankers Association

Appraisal Subcommittee (ASC)

Thank you for this opportunity to present Mortgage Bankers Association (MBA)[1]'s thoughts on this important topic. In my remarks today, I'll focus on four issues related to this discussion:

1. How MBA has responded to recent reports about appraisal bias,
2. Operational aspects of appraisals within the mortgage process,
3. The role of AVMs in addressing appraisal bias, and
4. Potential changes to the appraiser regulatory structure

1. MBA's advocacy and support for expanding and diversifying the appraiser workforce, such as through programs like PAREA, pre-dates the recent media and policy focus on appraisal bias.

   Moreover, in the past decade MBA has demonstrated its commitment to fair valuation and revitalization of distressed communities through its advocacy to address the "appraisal gap" problem for neighborhoods in transition, and spur reinvestment through the MBA-supported Neighborhood Homes Investment Act.

   Following the increased focus on appraisal bias, MBA closely studied research from a wide variety of industry, academic, and other researchers on this topic, and continues to advise its members on published reports regarding appraisal bias. There is clearly a need to continue efforts to track the performance of appraisers over time.

   MBA applauds the efforts of the PAVE task force and others to bring more data to bear on these questions and encourages appraisal policy reform within the government loan

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 390,000 people in virtually every community in the country. Headquartered in Washington, D.C., the association works to ensure the continued strength of the nation's residential and commercial real estate markets, to expand homeownership, and to extend access to affordable housing to all Americans. MBA promotes fair and ethical lending practices and fosters professional excellence among real estate finance employees through a wide range of educational programs and a variety of publications. Its membership of more than 2,000 companies includes all elements of real estate finance: independent mortgage banks, mortgage brokers, commercial banks, thrifts, REITs, Wall Street conduits, life insurance companies, credit unions, and others in the mortgage lending field. For additional information, visit MBA's website: www.mba.org.

programs. To that end, MBA participated in focus groups organized to support drafting of the PAVE Action Plan.

MBA residential policy committees continue to work to provide detailed suggestions to agencies, investors, and guarantors on policy changes that could expand and diversify the appraiser workforce, streamline appraisal processes, and reduce bias.

2. Accurate valuations of homes are essential to risk-management within the mortgage industry. Mortgage lenders evaluate borrower eligibility based on an assessment of both credit risk and collateral risk, so understanding the market value of the collateral is essential to making and pricing a mortgage. As emphasized in FDICIA and regulatory requirements, a property valuation conducted by a third party, whose payment is not determined by the successful completion of a property sale or loan origination, is an important safeguard for the system.

   The implementation of the Home Value Code of Conduct (HVCC) further insulated appraisers. This approach has worked well in terms of preventing over-valuation of properties. However, there was not until recently the same level of concern with respect to under-valuations. The concerns with respect to appraisal bias highlight symmetric risks that were not previously addressed in prior appraisal reforms.

   Industry leaders agree that adoption of technologies and hybrid strategies for valuation could alleviate stress on the appraiser workforce and reduce individual appraiser bias. Access to valuation data will be key in fostering the development of new technologies available to appraisers and mortgage lenders.

   In the decade since the launch of the Uniform Mortgage Data Program, the Enterprises have invested tremendous resources in the collection and analysis of loan-level data, and lenders have invested similarly to comply with these new demands from the Enterprises. The creation of the Uniform Collateral Data Portal and the UAD are important achievements by FHFA and the Enterprises.

   Much of the improved collateral data has not been made publicly available and remains accessible only to FHFA and the Enterprises. The limits on access to this collateral data are especially noteworthy, as many industry participants (along with standard setting bodies like MISMO) have contributed to the collection and development of this higher-quality data. Broader availability of these data holds the potential to improve risk management approaches, enhance forecasting tools, and better determine how valuations differ across geographies and various borrower demographic factors. These expanded capabilities should be made available broadly to any interested stakeholders, including public and private-sector researchers.

3. Increased use of new technologies and more robust data sources, including wider industry adoption of AVMs, also can help combat bias in the appraisal process.

AVMs are used to support valuations, aid quality assurance review in originations, and assist as valuation assessments during post-origination processes. The real estate industry also has been moving towards greater use of digital mortgages, which enables faster processing times and produce cost savings to consumers and investors. Use of additional data and models like AVMs are paramount to the successful implementation of these new technologies.

The use of AVMs may not eliminate all elements of bias in valuations, but it could improve upon the current system by potentially reducing conscious and unconscious human bias, which would be a welcome step forward as regulators and industry leaders continue to work to address systemic bias in the long term.

MBA understands the concern regarding entrenched patterns of undervaluation and the perpetuation of valuation disparities with any new technology or process, though this consideration reflects the need for proper safeguards as new technologies or processes advance – not a rejection of those technologies or processes.

4. Finally, with respect to the current regulatory structure, MBA supports increasing appraiser accountability, while maintaining appraiser independence. MBA would support having state regulators strengthen their oversight roles by holding appraisers accountable for the quality of the property valuations and any findings of bias. Moreover, MBA would support efforts to bring more independent oversight for appraisers. Finally, MBA supports the objectives of VA's recent efforts to augment their oversight of appraisers, and we look forward to working with VA to improve and implement these changes.

Thank you for the opportunity to share our views on this important topic.

Sincerely,

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Mortgage Bankers Association