



October 25, 2011

Edward DeMarco, Acting Director
Federal Housing Finance Agency

Mark Simpson
Collateral Risk Policy Director
Freddie Mac

Robert Murphy
Director, Collateral and Single-Family Risk Policy
Fannie Mae

The undersigned professional appraisal organizations – the American Society of Appraisers (ASA) and the National Association of Independent Fee Appraisers (NAIFA) – are writing in connection with yesterday’s announcement by the Federal Housing Finance Agency and the GSEs of changes to the Home Affordable Refinance Program (HARP). These changes are designed to create refinancing opportunities for borrowers whose mortgages are owned or guaranteed by the GSEs, “while reducing risk for Fannie Mae and Freddie Mac and bringing a measure of stability to housing markets.”

While our organizations strongly share these objectives, we seek clarification of the collateral valuation component of the new program which eliminates the need for a new property appraisal during the refinancing underwriting process “where there is a reliable AVM (automated valuation model) estimate provided by the Enterprises.” In the “HARP Phase II Q&A’s” portion of the document released yesterday, FHFA and the Enterprises state that “We are further streamlining the Enterprises’ existing use of AVM estimates of properties. Where there is a reliable AVM estimate of value provided by the Enterprises, a new appraisal will not be needed. Where there is not a reliable AVM value, a new appraisal will be required.” (Emphasis added)

Recognizing the important public policy objectives and the temporary nature of HARP, the fragile state of the housing markets and the mortgage payment difficulties faced by many homeowners, ASA and NAIFA do not object to this limited use of Enterprise AVMs when they are determined to be reliable. However, given the importance of reliable collateral valuation to consumers, to taxpayers and to the safety and soundness of the GSEs; and, given the strong consensus that professional appraisals are far more likely than AVMs or other valuation products to produce the most accurate fair market values, we seek an understanding of the specific quality control standards in place at the GSEs and FHFA to ensure that the AVMs relied on are indeed “reliable”. We also believe that the professional valuation community and its standards setting body, The Appraisal Foundation, could be of assistance to the Enterprises in their development of a quality control system that eliminates the use of unreliable AVMs in any mortgage refinance transaction.

While we recognize that the GSEs have developed their own AVMs, it is our understanding that until now, they have been primarily utilized as a check on the collateral valuations accompanying mortgages offered for sale to the Enterprises. Under the HARP Phase II changes, it appears that AVMs will now

become a primary tool – rather than a backup or limited use one – to value collateral for mortgages eligible for refinancing under the program. As a consequence, we believe it is essential that effective quality control standards are in place at the GSEs so as to reduce the possibility that unreliable AVMs are utilized in significant numbers of refinance transactions, with the inevitable accompanying risk of a further weakening of the Enterprises financial viability.

As you know, serious concerns have been raised over the years by many mortgage market participants about the reliability of AVMs. Recently, the Government Accountability Office (GAO) discussed a number of the reasons why AVMs are generally regarded in the mortgage markets as less reliable than appraisals and are not, therefore, “used for most purchase and refinance mortgage originations.”¹ Congress demonstrated concern over reliance on AVMs in federally-related transactions when, in Section 1125 of Title XIV of the Dodd-Frank Act, it required FHFA, the Bureau of Consumer Financial Protection and the banking agencies (in consultation with the Appraisal Standards Board of the Appraisal Foundation and the staff of the federal Appraisal Subcommittee) to examine the integrity of AVMs and issue regulations that would mandate quality control requirements for them. That study is a long way from completion and, of course, those regulations have not been issued.

Given the tenuous nature of the mortgage markets and the distress being experienced by many mortgagors, we are not suggesting that the HARP changes relative to reliance on AVMs for refinancing applications be postponed. Rather, we cite the concerns in Congress and elsewhere about AVMs to emphasize their frequent unreliability as a primary mortgage underwriting tool; and, because of that unreliability, the need for clear quality control standards and maximum transparency at Freddie and Fannie with respect to the manner in which they intend to utilize or reject AVMs.

To be clear, we continue to believe that reliance on collateral values determined by experienced, accountable and independent professional appraisers is, by far, the most effective way to protect taxpayers, consumers and secondary market investors. Nevertheless, the exigent circumstances of the current housing market and economy; and the need for expedient financial relief for many American homeowners requires all market participants to work together on solutions which streamline the refinancing process while still ensuring safety, soundness and the integrity of collateral valuations.

We respectfully request and would greatly appreciate an opportunity to meet with senior representatives of FHFA and the Enterprises to discuss the important issues raised in this letter. In order to arrange a meeting, please contact Peter Barash (Government Relations consultant to ASA and NAIFA) at 202-466-2221 or peter@barashassociates.com; or John Russell, Director of Government Relations for ASA at 703-733-2103 or jrussell@appraisers.org. Thank you for your prompt attention to this request.

Sincerely,

ASA

NAIFA

¹ “Residential Appraisals: Opportunities to Enhance Oversight of an Evolving Industry” July 2011, GAO-11-653.