Response from the National Community Stabilization Trust to the Federal Housing Finance Agency's Request for Information on Appraisal-Related Policies, Practices, and Processes

February 26, 2021

Thank you for the opportunity to comment on Fannie Mae and Freddie Mac's appraisal-related policies, practices, and processes.

The National Community Stabilization Trust (NCST) was created in 2008 to facilitate sales of single-family Real-Estate Owned (REO) properties to nonprofit and mission-aligned developers ("Community Partners"). Community Partners rehabilitate these REO properties and return them to productive use – primarily for resale to owner occupants but also for use as affordable rental – or transfer them to a local land bank. NCST also seeks to develop sources of affordable capital for community-based developers and advocates for policies to prevent neighborhood blight, promote stable communities, and support affordable homeownership.

Since its founding, NCST has facilitated the transfer of over 27,000 properties from REO sellers including the Federal Housing Administration, Fannie Mae, Freddie Mac, and a number of large banks and mortgage servicers. Approximately 17,000 of these properties were sold through NCST's flagship "first look" programs, which provide Community Partners an exclusive right to purchase REO properties before they are listed on the open market. Forthcoming research finds that compared to other purchasers of distressed properties, NCST Community Partners are more likely to renovate properties in lower-income communities of color and sell these properties to owner-occupants than typical investor purchasers.[1]

NCST's Community Partners frequently report that AVMs overvalue vacant homes that need to be rehabilitated. In a 2014 survey that NCST sponsored, one quarter of the respondents reported that appraisal issues were the biggest challenge to mortgage financing in their local market, and our experience is that this concern has only grown in recent years. Our Community Partners also report that appraisers select inaccurate comparable properties for distressed properties, looking at the value of fully repaired homes even when the distressed property requires significant rehabilitation.

Examining Valuations of Distressed Properties: Properties Declined by NCST Community Partners

To respond to this RFI, NCST reviewed a dataset on GSE valuations and sales prices provided to us by Fannie Mae and Freddie Mac for about 13,000 properties that were offered for sale through NCST between 2014 and 2018 but not purchased by NCST's Community Partners, then subsequently purchased by other parties.[2]

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[1] Andrew Jakabovics and David Sanchez, "Does a Non-Profit "First Look" Program Promote Neighborhood Stabilization? Examining Outcomes for REO Sales in Florida," Center for Community Progress, Federal Reserve Bank of Atlanta, and Federal Reserve Bank of Cleveland, "Ten Years Tackling Vacancy and Abandonment: A Retrospective Examination of Strategies and Impacts" (to be published in July 2021).

[2] Freddie Mac continues to sell REO properties through NCST, but Fannie Mae no longer participates in the program.

Under NCST's programs, when a listed REO property falls within the geographic area where a Community Partner is interested in acquiring properties, it is offered for sale to that Community Partner at a price set by the Seller. The Seller sets the price by establishing the property's Fair Market Value (FMV) and then backing out costs that would be avoided by transacting through the program, such as costs for maintenance and marketing. If no NCST Community Partner purchases the property, the property returns to the Seller, which then disposes of it through its retail REO disposition process, which might include listing on an auction platform or on the Multiple Listing Service.

For properties offered to but not purchased by NCST Community Partners, we compare the FMV as estimated by the GSE at time of offer to the actual sales price when the property was subsequently re-listed and sold to a different purchaser. Because these sales occurred at a time when home prices were generally rising nationally, holding all else equal one would expect the value for a final sale should be higher than at the time when the property was offered for sale through NCST.

First, we compared the FMV valuation to the sales price for properties in all census tracts with properties in low-income census tracts and minority census tracts as identified by FHFA's 2018 Low-Income Areas file. Our analysis did not find significant differences in valuation accuracy between properties located in low-income census tracts or minority census tracts and those located in other areas.

Is Ultimate Sales Price Higher or Lower than First Look FMV?

	All Tracts	Not Low Income	Low-Income Tract	Not Minority Tract	Minority Tract
Lower	41.2%	40.0%	42.7%	42.4%	39.9%
Higher	56.3%	57.9%	54.4%	55.4%	57.3%
No Change	2.5%	2.2%	2.9%	2.2%	2.8%

We then compared properties that subsequently sold to owner-occupants (58.7% of the sample) versus those that sold to investors (36.9%). Because properties that sell to owner-occupants are likely to be in better condition and may have been repaired by a GSE after the property was declined for purchase by NCST's Community Partners, differentiating between these properties helps understand whether the GSEs' valuation methods accurately value properties that require rehabilitation.

Is Ultimate Sales Price Higher or Lower than First Look FMV?

	Owner-Occupant	Investor
Lower	26.9%	61.2%
Higher	70.8%	35.9%
No Change	2.3%	2.9%

We find that properties sold to owner-occupants are significantly more likely to sell at a price that is higher than the FMV estimated during the first look sales period. Correspondingly, properties sold to investors are significantly more likely to have sales prices below the estimated FMV. This suggests that the methodology the GSEs use to establish FMV may not work well for properties that are in worse condition and require more significant repairs.

While we recognize our analysis is preliminary, NCST would be happy to collaborate with FHFA on further research using this data.

The Need for Further Research by FHFA

While NCST's access to appraisal data is extremely limited, FHFA has access to the Uniform Appraisal Dataset (UAD), which is an extremely comprehensive source of appraisal data. In fact, FHFA's Division of Research of Statistics has already published groundbreaking research based on the UAD.[3]

We strongly recommend that FHFA use the UAD to study the accuracy of the Enterprises' valuations of distressed properties and of other properties in Low Income Areas. We are particularly interested in whether appraisers routinely select non-distressed comparable properties when valuing Enterprise REO, as well as whether the Enterprises' AVMs provide accurate valuations of properties that need repair.

We further recommend that FHFA focus on the disparities in value determinations for minority borrowers or home sellers, as well as for properties located in communities of color. As the RFI notes, research suggests that some appraisers "… take racial and ethnic composition of the neighborhood into consideration when selecting comparable homes, even when there are comparable homes located closer to the subject property." FHFA should study the extent to which this occurs in appraisals for GSE properties. FHFA should also devote significant resources to studying racial bias in AVMs.

NCST would be happy to engage further with FHFA on the important issues raised in its RFI. If you have any questions, please contact David Sanchez, Director of Research and Development, at dsanchez@stabilizationtrust.org or 202-706-7499.

[3] For example, see William Larson, Jessica Shui, Morris Davis, and Stephen Oliner "Working Paper 19-01: The Price of Residential Land for Counties, ZIP codes, and Census Tracts in the United States" and Jessica Shui and Shriya Murthy "Working Paper 17-03: Under What Circumstances do First-time Homebuyers Overpay? – An Analysis Using Mortgage and Appraisal Data"