MORTGAGE BANKERS ASSOCIATION

Work Session Statements on behalf of:
Mortgage Bankers Association

Use of Algorithms, Automated Valuation Models and Property Data Collection in the Mortgage Industry

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The Mortgage Bankers Association (MBA)[1] appreciates the opportunity to participate in today's working session to educate this group on the use of algorithm technology in the mortgage process and specifically the use of automated valuation models (AVMs) and property data collectors. The mortgage industry has carefully and deliberately introduced AI, algorithms, and other technologies for a number of reasons, including increasing efficiency, lowering the risk of human error and improving consumer experience.

Algorithmic technology is used in AVMs to estimate home values for mortgage applications by analyzing a variety of data points and patterns. These technologies help lenders assess the value of a property based on factors such as location, size, amenities, and historical sales data. The algorithms in AVMs are mathematical models and procedures used to process the data and generate estimates. These algorithms can be designed to consider a range of factors that influence home values, such as property characteristics, comparable sales, market trends, and economic indicators. The introduction of AVMs has helped provide better consumer expectations for home value before the appraisal is ordered and allowed lenders to quote more accurate pricing for the mortgage application up front.

The use of AVMs is also found in the Government Sponsored Enterprises (GSEs), or Fannie Mae and Freddie Mac, who are under conservatorship of the federal government through the Federal Housing Finance Agency (FHFA). These GSEs purchase the majority of mortgage loans nationwide, providing liquidity for both banks and independent mortgage banks to continue to lend. Certain AVM models are developed within Fannie Mae or Freddie Mac and can be used, for example, to provide an appraisal waiver, now called "value acceptance," which enables the consumer to close a refinance transaction without an appraisal, and more importantly without the cost of an appraisal. The allowance of value acceptance is entirely dependent on the GSEs' risk analysis for the reliability of that specific data set. The risk analysis will consider whether or not the consumer has a loan already securitized by the GSEs, if there is available data on the home through a prior appraisal, and if there is sufficient data available in

[1] The Mortgage Bankers Association (MBA) is the national association representing the real estate finance industry, an industry that employs more than 300,000 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 2,200 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.

the home's market. If a home is in a unique area or there is not enough data to support the estimated value, the GSEs are unlikely to provide the value acceptance. Consumers always have the option to request and pay for a traditional appraisal if they feel the value provided with value acceptance is not correct and/or they would like to have an independent assessment of value.

More recently, the GSEs jointly developed a Uniform Property Dataset (UPD). The goal of the UPD was to establish a standardized data set between both Fannie Mae and Freddie Mac. The data collected includes all required, conditionally required, and optional data elements for GSE property data collection and supports a full interior and exterior property data collection, including images and floor plan of the subject property. The data collection can be performed by a trained and vetted property data collector from an approved list[2] of vendors provided by Fannie Mae or Freddie Mac. According to Fannie Mae, the goals of offering the value acceptance plus property data process are to: "provide efficiency in reducing appraisal fulfillment timelines, create more objective data, reduce bias, and address a growing appraiser capacity concern."[3] The UPD process has been a pilot for over 5 years and is now being offered to all mortgage lenders for single family homes. Later this year MBA expects condominiums to be added to the list of acceptable property types.

It is important to note, if the consumer's property is eligible for a value acceptance plus property data collection option the consumer can reject the value assessed or this process and still choose to proceed with a traditional appraisal. When the mortgage application is submitted to the underwriting systems of the GSEs the full application undergoes a risk analysis and determines if the property, not the consumer, is eligible for the value acceptance or property data collection option. The decision to provide the value acceptance plus data collector option is still based on current known data of the market, the estimated value provided by the consumer in their mortgage application, and the known data of the subject property. It is the consumer's choice to use a value acceptance waiver plus property data collection in lieu of a traditional appraisal.

If the property is eligible and the consumer chooses to utilize a data collector, the lender will assign the task to their chosen vendor providing data collection. Again, the vendor providing the data collection must be on the approved list of Fannie Mae or Freddie Mac in order for the data collection to be accepted. The vendors on the approved list must document who they will be utilizing for the property data collection. Some of the individuals used by the vendors include appraisers, real estate agents or brokers, and insurance inspectors. Fannie Mae and Freddie Mac require specific training and relevant work experience to allow them to perform this task. There is no requirement of state licensure for these individuals by the GSEs as the role of the data collector in this process is to only collect property data, they do not assign or assess value.

The use of these technologies in the mortgage process has been and will continue to be regulated by the Federal government. Under Title XI the Office of the Comptroller of the Currency (OCC), Federal Reserve, Federal Deposit Insurance Corporation (FDIC), National

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[2] https://singlefamily.fanniemae.com/media/33566/display

[3]https://singlefamily.fanniemae.com/delivering/uniform-mortgage-data-program/uniform-property-dataset#:~:text=How%20are%20property%20data%20collections,%2C%20imagery%2C%20and%20floor%20plan.

Credit Union Administration (NCUA) Board, FHFA and the Consumer Financial Protection Bureau (CFPB) in consultation with the staff of the Appraisal Subcommittee and the Appraisal Standards Board of the Appraisal Foundation have promulgated regulations implementing quality control standards for AVMs.[4] Since 2010, the OCC, FDIC and NCUA have provided supervisory guidance on the use of AVMs by their regulated institutions, and separately FHFA and the OCC/FDIC have provided supervisory guidance on validation and testing of models. In June of last year, the agencies proposed further updates to these regulations under Title XI. This proposal would require "mortgage originators and secondary market issuers [to] adopt policies, practices, procedures, and control systems to ensure that AVMs used in certain credit decisions or covered securitization determinations adhere to quality control standards designed to meet specific quality control factors."[5] Complying with nondiscrimination law is one such factor.[6] The proposal has not yet been finalized, but MBA anticipates this happening later in 2024.

Additionally, the use of AVMs or data collection processes have been in the mortgage process for over a decade and as early as 2014, the CFPB had issued updates to its Valuations Rule[7] under the Equal Credit Opportunity Act (ECOA) which makes it clear the use of valuation models for assigning value to a property follow the same rules as a real appraisal for consumer disclosure and access. In May of 2022, the CFPB issued a circular[8] which further clarified the rules of ECOA apply to technology, ensuring no "black boxes" are used in transactions. The no "black boxes" rule means a lender using the technology must understand how it arrives at the decision or data output provided and assess the risk of discrimination. The real estate industry has developed these models in compliance with ECOA and are required to ensure the historical data used for property valuations does not include instances of appraisal bias which is a known problem.

AVMs are not a panacea. Many properties today, if not the majority of properties, still require the performance of a traditional appraisal conducted by a licensed and/or certified residential appraiser. Further, many consumers continue to find considerable value in ordering a traditional appraisal, even when not required, for their own benefit. Nonetheless, the introduction of AVM technology has brought significant benefit to the mortgage market overall. AVMs and technologies like them can alleviate appraiser shortages in certain markets, reduce transaction costs for consumers and safeguard against individual appraisal bias. A robust regulatory framework for AVMs – especially one that roots out bias - continues to be a critical imperative in order to achieve these outcomes.

Thank you for the opportunity to speak today, we look forward to working with this state on any further questions or concerns as it relates to the mortgage industry.

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[4] Title XI § 125(b),12 U.S.C. § 3354(b)
[5]https://www.federalregister.gov/documents/2023/06/21/2023-12187/quality-control-standards-for-automated-valuation-models
[6] Proposed 12 C.F.R. § 1026.42(a)(3)(v).
[7] https://files.consumerfinance.gov/f/documents/201401_cfpb_compliance-guide_ecoa_juftx4F.pdf
[8]https://www.consumerfinance.gov/about-us/newsroom/cfpb-acts-to-protect-the-public-from-black-box-credit-models-using-complex-algorithms/