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The purpose of this letter is to review the shortcomings of alternative valuation techniques, in relation to the traditional "manual" appraisal, for those having interests in the refinancing of residential properties. Of special concern is the use of automated valuation models (AVMs).

The administration has recently encouraged the use of AVMs in the refinancing of properties which involve FHA, Fannie Mae and Freddie Mac. It is now proposing further utilizations. It is not the intent of this letter to challenge the use of AVMs, but rather to underscore the shortcomings of AVMs that tend to undermine the credibility of their results.

AVMs provide a valuation indication of a residential property based on selected data fed into a specially designed software program that selects sales transactions of properties believed to be similar to the subject property. The program may also analyze similar properties that are listed for sale and may calculate mean and/or median list-to-sales price ratios for previous sales. Through these actions it develops an indication of value relying on remote statistical analysis rather than direct observation and informed judgment.

Clearly, the AVM program operator should be knowledgeable of the particular system that is to be used, but must also be aware that there are other shortcomings common to AVMs in comparison with manual appraisals. First is the difficulty common to all AVMs of identifying boundaries of the neighborhood in which the subject is located; and assessing the impact that various features of the neighborhood may have on the marketability of the subject. Beyond that, the appraiser must develop the highest and best use of the subject. It is only through analysis of the highest and best use that the appraiser is able to determine what properties are truly comparable and then make informed selections. The AVM is incapable of such analysis. Finally, the AVM cannot make an
informed judgment of either the quality of construction of the subject or its condition, as these things relate to relative competitiveness in the market. These AVM shortcomings significantly reduce the credibility of the AVM value indication over that of a trained professional’s opinion as reported in the manual appraisal.

In summary, it is NAA’s position that AVMs are viable alternatives to traditional appraisal practice for many collateral valuation decisions. However, it is urged that their shortcomings in comparison to a manual appraisal always be recognized and given due consideration.

The National Association of Appraisers is a 501c(6) association of real property appraisers representing appraisers in more than thirty states; and has as its primary objectives to provide advocacy, education and accurate information to its members.

Your continued vigilance on this issue is sincerely appreciated by those of us in the residential appraisal community, and is considered to be in the best interest of the public.

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President
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Cf:
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