

# Home Appraisals Go High-Tech

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Proposed regulations would allow the majority of homes to be bought and sold without being appraised by a human.

By Ryan Dezember and Cezary Podkul, *The Wall Street Journal*, Nov. 20, 2018 p. A1, A6.

The battle between man and bot has a new front: your mortgage. Federal regulators have proposed loosening real-estate appraisal requirements to enable a majority of U.S. homes to be bought and sold without being evaluated by a licensed human appraiser. That potentially opens the door for cheaper, faster, but largely untested property valuations based on computer algorithms.

The proposal was made earlier this month by the Office of the Comptroller of the Currency, the Federal Deposit Insurance Corp. and the Federal Reserve. It would increase to \$400,000, from \$250,000, the value of homes that can be bought and sold without a tape-measure-toting appraiser visiting a property. More than two-thirds of U.S. homes sell for \$400,000 or less, according to U.S. Census data and the National Association of Realtors. If the regulators' proposal had been in force last year, about 214,000 additional home sales, or some \$68 billion worth, could have been made without an appraisal, regulators said in their 69-page proposal.

Some worry, though, that dropping appraisal requirements would introduce new risks into the \$10.7 trillion market for home loans. "We still would prefer a human being doing the appraisal," said Lima Ekram, a mortgage-backed securities analyst at Moody's Investors Service.

One issue: Automated valuations done by computers are largely unregulated. The 2010 Dodd-Frank financial overhaul required regulators to propose quality control standards for so-called automated valuation models, but they have yet to do so. "There are a lot of problems with appraisals, but there are voluminous standards," said Ritesh Bansal, chief executive of Appraisal Inc., a New York-based provider of automated valuations. "On the AVM side, it's a wild, wild West. And that just invites abuse of all kind."

Regulators say the immediate effect of dropping appraisal requirements would be limited because a vast majority of home loans in that range are bought these days by mortgage giants Fannie Mae and Freddie Mac, or guaranteed by other federal agencies. Those typically require appraisals regardless of home value. Appraisals help "ensure that the estimated value of the property supports the purchase price and the mortgage amount," regulators wrote in their proposal. "However, the agencies also are aware that the cost and time of obtaining an appraisal can, in some cases, result in delays and higher expenses."

Scrapping the appraisal requirement would open a swath of new turf for upstart property valuation companies, like HouseCanary Inc., which use artificial intelligence, algorithms and sometimes even drones to value homes. Jeremy Sicklick, the company's chief executive, said that replacing appraisers with computers will speed up home sales by weeks, reduce costs for buyers and eliminate human bias and error from the process of valuing mortgage collateral. "The technology has reached the level to where this change creates a win-win for the consumer and lender," Mr. Sicklick said.

Although appraisals are based on criteria such as sales of recent comparable homes, they are sometimes more art than science. And appraisers came under fire following the housing crisis, shouldering much blame for inflating home prices at lenders' behest. Their latest turf battle comes months after a defeat at the hands of lawmakers rolling back some financial-crisis-era banking rules. That change eliminated a chunk of appraisers' business by exempting many rural properties from appraisals. "The appraisal profession is suffering a death by a thousand cuts," said Joan Trice, chief executive of Allterra Group, a Maryland firm that tracks the industry.

Since the housing crash, the number of appraiser credentials in the U.S. has declined about 21%, to fewer than 96,000, according to a federal group that governs the profession. Some lenders have complained appraisers in booming and rural markets are in short supply. Last autumn a rural Tennessee bank asked federal regulators to waive appraisal requirements and allow an employee with some appraisal training to value collateral. The request was denied, but it sparked national debate over whether there are enough appraisers, and how homes might be valued without them.

Appraisals typically cost between \$375 and \$900 for a single-family home. Valuations produced by the likes of HouseCanary often cost less than \$100 a house. So do broker price opinions, which are a sort of perfunctory assessment performed by real-estate agents and even outsourced to office workers in India who use online data. Banks and Wall Street investors use these alternatives to price portfolios of houses and home loans, since valuations that are too high or low tend to balance out over pools of thousands of properties.

Appraisers argue that approach is unsuitable for home purchases, though. An appraisal that is off by a few percent could leave a homeowner owing more than their house is worth or lenders with insufficient collateral to cover defaulted loans. "There's still no computer that can see, hear, taste, smell and touch," said Pat Turner, an appraiser in Richmond, Va. "Have you ever been in a hoarder's house?"