Podcast Transcript:

Appraisal Adjustments with Scott Reuter

Phil Treadwell, Host of The Mortgage Marketing Expert Podcast
Scott Reuter, Chief Appraiser and Director of Property Valuation

Phil Treadwell: (00:00)
All right. Welcome to the Mortgage Marketing Expert podcast. I'm your host, Phil Treadwell. Our mortgage marketing expert today is Scott Reuter. He's the Chief Appraiser and Director of Property Valuation for Freddie Mac Single-Family Risk Management Division. His team leads the development and refinement of property valuation risk management strategies, as well as establishing and maintaining a credible quality assurance process across multiple business lines. He is a state certified general appraiser with over 35 years experience in valuation, appraisal, and collateral risk management. Prior to Freddie, he held management positions at Bank of America, Goldman Sachs, and GE, is extremely experienced. And we're going to talk about an extremely relevant topic right now, which is property and valuation, especially in the state of this climate that we're in housing. So Scott, we appreciate you taking the time and welcome to the podcast.

Scott Reuter:
Phil, thank you. Pleasure to be here.

Phil Treadwell:
Well, I'm excited to have this conversation because I think it's super relevant to what's going on in the market. So I'd love you just to kind of take a minute. We'll just jump right in, when it comes to what's happening in housing right now. What are you guys seeing, especially from the residential market in the residential housing, what are you guys seeing as kind of the state of the industry right now? And what are some of those hot topics that you guys are talking about?

Scott Reuter:
Yeah, it's a great question. So I would say as we sit here, in the middle of 2022, we've come off two absolutely crazy years that I don't know anybody that as we went into a hundred year pandemic, would've predicted, we'd have the two real estate years that we had back to back. And I think all the fundamentals that we really focus on here at Freddie Mac pertain in up markets, as well as down markets. And it's not the suggest we're a down market, but with interest rates with home prices nationwide, a variety of things are kind of impacting a lot of desire and ability to buy.

Scott Reuter:
But a lot of the fundamentals on the appraisal and the valuation side particularly stay true through all markets. Our broader team here, we're focused on ongoing development and refinement of a lot of our risk strategies. That includes a lot of traditional appraisal review. The team runs QA and QC against a lot of just normal sampling of appraisal work, as well as the QA across our tools, along the loan collateral advisor, as well as our ACE, Automated Collateral Evaluation waiver.

Phil Treadwell:
Right. So within those tools, because those are super valuable tools, especially on the origination side, a large part of our audiences is originators and managers that are managing production teams. In a market like this, how do you guys... And this may be kind of a loaded question. How do you kind of change those models to kind of keep up with what's going on, because as values increase and those new comparables are in there, how do you guys look at that from a risk management perspective and say, "Hey, we still want to make sure that we're offering this and allowing these automated valuations, if you will, and waivers," while still staying true to making sure that the collateral is good for the security of the loan?

Scott Reuter:
Yeah, absolutely. Freddie Mac, I've said it before in speaking to industry, and conferences and industry events, we have one job, we manage risk period, hard stop. So everything we do kind of fits into understanding how we manage the risk overall, and then in our space, in collateral evaluation.

Scott Reuter:
To your question, I think we fortunately have a broad team that works pretty tirelessly and diligently on ensuring that the waiver, any of the models and submodels that work, our LCA collateral advisor tool, that they stay current. We've got a MEDA, M E D A team, Modeling Econometric Data and Analytic team that works very hard. HVE, our automated valuation model is integrated in these tools as well as again, to my earlier comment, the personal touch, right? We appraisers run on a sampling of that. So there's a lot of work. It's a long way to say there's a lot of work involved in ensuring that they stay current. Our clients are lenders and we are very sensitive to the fact, everything you mentioned. They want efficiency, they want certainty. And obviously we have a broader mission with liquidity and stability in the market, so all that kind of ties in.

Phil Treadwell:
Ties in, plays together. Well, I think their top of mind too, because as we talk about not just those particular tools from a collateral perspective, but also all of the technology and tools that Freddie Mac offers that drives down the costs of loans, which is great for lenders. It's great for clients. It's great for everybody involved, continues to provide liquidity in the market, but kind of the elephant in the room is that appraisers like lenders, and you can throw in CPAs and then a lot of other verticals, but appraisers are kind of an aging industry. And it's a very difficult kind of entry into the market.

Phil Treadwell:
It's not something that you just go take a quick training and have your appraiser license, and you do it. There's kind of a long process there. So love from your guys' perspective to kind of speak to, what is kind of the future of that? How are we making sure we have not only enough appraisers, but we're balancing that with some of these tech tools and things like that. It's kind of a broader conversation, but I'd love to just kind of jump in from your perspective to kind of share what your guys' thoughts are.

Scott Reuter:
No, boy, you hit a nail in the head there. And I think from an appraiser perspective, you're absolutely right. So we're not making as many new appraisers. I think this is not unique to our profession, but I think we're in the spotlight now. And I think the demographics of our profession are not tremendously flattering. We're aging, we're overwhelmingly white, we're overwhelmingly male. And just on the aging piece, I think that there's a concern that we're not bringing on enough new appraisers to satisfy volume. So that's one, that's an initiative that we're very focused on both from diversity and being very open to bringing on trainees. But to your other point, a little bit, entry into this profession is kind of odd. It is basically an apprenticeship kind of model. And my dad was an appraiser, and I've used myself as a punchline many times, right?

Scott Reuter:
I didn't find the profession, the profession found me. I wouldn't have known what an appraiser was if I didn't bump into my dad every single day of my life growing up. So I think a lot of it is awareness in trying to work on that. But to your other point, I think appraiser capacity and volume is a real thing. It's something we're keenly aware of and odd for an appraiser, maybe to say this, but we're focused on other options other than a full appraisal all the time. And tying back to the risk lens, we tell appraisers all the time, an appraisal helps inform a risk decision. And if we at Freddie Mac have analytics, big data, we have other means to help inform that risk decision, I think we need to do it.

Scott Reuter:
We sit in Northern Virginia here and you go out the Dulles Corridor to the airport, so to speak. There's a lot of communities there that are very homogeneous, a lot of identical town homes, a lot of big concentration of subdivisions, a lot of similarity in the properties they trade often. So you got a lot of similarity and you got active, typically unbalanced, a lot of active sales. You don't really need an appraiser on a relatively low risk or kind of a traditional loan to wait in line for a long time for an appraiser to go out and look at the property and tell you, "Yeah, I think your purchase price there, Phil, is fine."

Scott Reuter:
I think if you go out a little further in our area here, out the Loudoun County where it's more rural, it's more heterogeneous, the properties are more complex, properties are more unique. There's not a lot of data. They don't really trade or sell that often. That's where you need an appraiser. So we're trying to take little bits of that across the country and say, "Put an appraiser where we really need them." But if we have the analytics and you can partner that with either just a pure waiver decision or we're making a decision based on reasonableness of value and condition, potential condition risk to Freddie Mac all the way up to components that could include an appraiser, but not quite be a full appraisal. So we're trying to look at a spectrum that's pretty binary now between waiver and full appraisal, and build that out with other options for the industry.

Phil Treadwell:
So I think from a sales perspective, from kind of an on the ground level of the industry, I think that's the right decision because what we find a lot is we all know appraisals... I think you said it perfectly, appraisals are supposed to inform a risk decision, but so often we take something that is very subjective, right? And an appraisal is an opinion of value, right? There's multiple ways that that can be looked at and we make very objective decisions based upon a subjective opinion of value. So from a sales perspective, that can be a little bit challenging where I think if we have some of those options where it's not full appraisal or appraisal waiver, and there's some things in there in between, because to your point, there's areas of any MSA, of any metropolitan area that are very easy to determine value and those values get hit right on the head.

Phil Treadwell:
And there's other areas where you may not have comparable properties within a few miles in the last 12 months and you have to go out and try to kind of build that backwards. So in that context, because we don't have this new crop of appraisers coming on, does that contribute to some of the urgency of finding some of these, and I don't want to say a hybrid, but I don't know another word to use, kind of these hybrid valuations? Is that more of a contributing factor or is it more so the efficiency and creating a great risk model, but, hey, let's also provide these liquidity. Let's lower the cost of doing loans. Let's provide the lenders. There's kind of two different issues there. And I know both of them are in, but I don't know if there's one or the other that you guys kind of pay more attention to.

Scott Reuter:
I think all the above. You positioned that great. I think we're interested in enhancing existing valuation methods and developing new. We've got a statement that's kind of a splash on our collateral valuation and appraisal resources page that says something to the effect that our goal is to purchase loans supported by the most reliable and appropriate valuation methods available to help mitigate risk associated with default. So it's a long way to say kind of what you just said. I think we look at the pressure on the existing appraiser capacity and it's real, and it's a metric that we track going back a number of years. And we look at purchase refinance volume and we see about the same 40,000 regular appraisal names, unique licenses that are submitting work to the GSE's.

Scott Reuter:
And in busy times it puts pressure on that capacity. And I think that to me is not sustainable long term. And I think it's a poor answer as an industry, and even as an appraiser to say, "Well, when we're busy, you just have to wait, Phil. I don't know what to tell you." I think that's the wrong answer. And I think the good news is with the amount and the availability of data and advanced analytics, we can make and inform those medium to lower level risk decisions based on a combination of things. And yeah, so I would say that's a way to say that is a big driver in us trying to look at other things that appraisers, that we can offer to the industry, that appraisers can have a hand in completing, but maybe not do the whole process.

Phil Treadwell:
So in layman's terms for folks that may not necessarily be as familiar with this type of conversation, what you're saying is because of the data and analytics that you're talking about, you may be able to provide to appraisers some information to kind of streamline that appraisal process. Is that kind of a fair assessment?

Scott Reuter:
It is. And then there's a variety of variations on that scene too. So while we've got a whole group here in Freddie Mac that's on the innovation and modernization team, so there's a lot of things that aren't public that we're testing, learning, piloting, just trying to see what various different combinations work. We've got some great lender partners that we're doing that with. And they're looking at again, all different variations. I mean, back when I started in the business Phil, it was the appraiser from start to finish, soup to nuts as the saying used to go, you did everything. And you'd get an order in, you'd have an address and nobody would know anything about it really. And the lender, the appraiser might know a little bit, but everybody was waiting on the appraiser to set up the file, do the initial research, actually go out to the property, do the inspection, collect the data, come back, do all the analysis and the reconciliation and finish the report.

Scott Reuter:
Well, fast forward 30 to 35 years. That first step of those three very broad buckets, the data piece, it's almost laughable now. I mean, the orders I understand from talking to practicing appraisers, come in inbound with so much information that there may be specific subject property information. There may be just a lot of other information in that market. So that's a way to say lenders have a pretty good general idea about a property as the order's going out, one.

Scott Reuter:
Two, there's been a lot of conversation around, do the appraisers really need to do the middle part? If it requires an inspection to gather data, is that really, to borrow an appraisal term, the highest and best use of an appraiser's time to drive out, schedule the inspection? And, "Oh, gee, I'm off on Tuesdays, but this day's bad," that we had tremendous delays, takes a while to get that back. Where, I, personally really want that appraiser is the last part. I want them to be able to collect all that information. And maybe even if it's componentized, be able then at their desk to do the analysis, do the research, use all that knowledge and experience and be able to derive a supported opinion of value.

Phil Treadwell:
I love that. And we're kind of talking of these different options across the appraisal spectrum, if you will. And I know that desktop appraisals is a big conversation piece, and that's something that has kind of made a resurgence. I'd love you to talk about, because I think we've kind of touched on it a little bit without necessarily kind of identifying it, why did Freddie Mac bring back desktop appraisals and what type of offering will be allowed? What type of properties won't be allowed? Just kind of talk through, what can we see, what's coming? What do we have now?

Scott Reuter:
Yeah. So I would say broad lens, we learned a lot through COVID, and hopefully we're coming out the other side of COVID, but COVID was terrible on every level, but it did help provide us a lot of feedback, really the largest live test, and learned when we put appraisal flexibilities into place, one of the options was desktop appraisal, and we found that appraisers, really to their credit, they adapted in a pretty quick way to a changing a new process. And they, in many time, we QC'd the reports. Many times they exceeded the minimum scope of work, they were showing us they could utilize some of the emerging tools in tech to enable them to complete the reports in a more efficient manner. So we had already kind of had that in the hopper. And I think that was the final thing as we collaborated with our friends at Fannie Mae and then under the direction of our regulator to be able to come out with a permanent desktop offering.

Scott Reuter:
So it was a way to, you're right, think of a continuum or a spectrum. It was a way to put another product offering there that hopefully could be more efficient. Parenthetically. I don't know if it's quite going to hit a reduced price point that the industry initially reacted to. I think a lot of folks, maybe on the front end of the business thought desktop, it's going to be quick, easy, cheap, and we don't get involved in fees. We let the market and the appraisers and everyone else kind of let that balance what the cost is. But we honestly feel we had an eye that these could be more efficient. And so that was one of the big driving elements to the desktop.

Scott Reuter:
And by the way, we're not done. I mean, I think that whole barren landscape that now has one thing standing between waiver and full appraisal is desktop. And I think we've got a lot of other options and opportunities, both from waiver up, meaning what can we partner with automation to help make a quick decision that's less expensive, more efficient, and quicker on the front end of the process? And then as it gets a little more complicated, it may not always mean that it has to

be full stand in line for a full appraisal during a busy time, it could be, get information to an appraiser that he or she could then incorporate into a desktop or a hybrid report that they could then maybe hopefully get done quicker.

Phil Treadwell:
Or essentially, and again, I know a lot of this isn't necessarily public, but one of the things that pops in my mind is yes, you're going to have an appraisal waiver of some sort, an automated value, but we just need an appraiser to verify these pieces of information or something like that where we're just... When you talk about condition of property or things of that nature, we may have the data, but right now, if there's not all the pieces in place, it defaults to either a desktop or to a full appraisal where what it sounds like, if I'm reading between the lines a little bit, there may be some other options in there where we're almost there, maybe we have kind of an abbreviated process. In a very broad term, is that kind of fair to say those types of things may be coming down the pipe pretty quickly?

Scott Reuter:
Absolutely. And that's not a secret and you teed it up and we're thinking along those lines with a PDR, a property data report, something that doesn't have to be done by an appraiser, but could contain all the information that's relevant to an appraiser. I mean, sitting where I sat for many years prior to the last kind of roughly half of my career, that would've been meaningful. That would've been great. But again, it was before any of that was an option, but PDR as we think... And again, that's why we're still testing the concept, could be collected by a trained third party, someone who could be out at the property. Some of these elements too, Phil, could even be front loaded into the listing process. I know there's a lot of things that are involved there and there's some litigation pending on floor plans, which I can't comment about, but I know there's always going to be some things swirling around, but if we could enhance that listing packet of information early, at the time of listing. You're already there, collect the data, collect it in a format that the appraiser could use it.

Scott Reuter:
I mean, I think of a world where that's available and then all of a sudden a property misses a waiver, but they need a desktop, it's as easy as getting an email with all the attachments of everything I need. I can be working on that report today. And I think that's what would resonate. If I were on the front end of this, that would mean a lot.

Phil Treadwell:
Well, I think, especially if you layer these with some of the other technology tools that Freddie Mac offers for income and asset verification, like we've talked about, and whenever you start piecing these things together, not only do we have an extremely efficient process for the lender, we have a very efficient and cost effective process for the borrower. And not to go down a rabbit hole, but I think consumers, I call it the Amazonification of the world, because Amazon's the easy target. Years ago we would order something online and we had a low shipping option or an expensive shipping option. And then it went to a free shipping option, or maybe you paid a little bit to expedite it, to now, I find myself when I'm shopping online, if especially I'm in the DFW, the Dallas Metropolitan Area, if it's not something that I can get same day or next day, a lot of times I'll just pick a different product. You know what I mean?

Phil Treadwell:
We've created [crosstalk 00:20:50].

Scott Reuter:
I understand.

Phil Treadwell:
In a lot of these other verticals, consumers have an expectation of service and delivery of some of these products and services, and that's one of the reasons I love having these conversations with Freddie Mac and with you is, that we're talking about really bringing this industry forward and providing the consumer, the buyer, the borrower, an experience that they're kind of expecting that they know, hey, it's buying a house, it's different, but we all know there's this stigma to buying a house and getting a mortgage. And it's not always a favorable thing.

Phil Treadwell:
So I think that's where these types of technologies are exciting because we're able to use technology that's available throughout a lot of other industries, and put it in a place where we can still be responsible with lending and providing

liquidity and risk assessment, risk management and things of that nature. And that's really what you guys are doing with this entire appraisal spectrum is listen, we want to provide as a streamlined efficient process as possible, while still being responsible with what the purposes of Freddie Mac in the housing industry.

Scott Reuter:
Yeah, no, without a doubt. All those other efficiencies, kind of the outlier is, up to and including today, is typically the appraisal. And it's just because it's the piece that the digital advancement, the enhancement hasn't made its way to yet. The good news is not only are we innovating and everything you said about what we're doing as a company resonates and it's what we're laser focused on every day is, as an industry and collaboration with Fannie Mae, we're working on the new UAD, which is the Uniform Appraisal Dataset. So it's the UAD redesign. It's also sometimes called the forms redesign, even though the good news for the industry is we're not creating another static form, we're creating a new data standard and data set. So that's a long way to... That's a multi-year project, but it really will underpin and enhance a lot of innovation and modernization going forward. No longer will appraisers think and have to conceptualize their development of their report through a form that was designed for a typewriter where they actually fill it out.

Scott Reuter:
They can go through, and we've talked to some of the software developers, where they envision this being delivered to appraisers dynamically over their desktop. So they kind of work through, in an intuitive fashion, almost the analogy is like TurboTax. The appraisers no longer will bring up a form and start typing your address and your neighborhood and the whole bid end. It'll be just a series of questions. Did you inspect? Was it a third party inspection? Is it a desktop? And then that'll perform and then all the elements that the appraiser identifies are meaningful and were there out buildings? Was there an accessory dwelling unit? Was there this? Was there that? And if there was nothing, those sections never open, and then the output is designed... It's uniform. They think they're going as it's conceptualized now, but it's going to be unique to that property. So the point is it's no longer, "Well, I can't do this because the certifications don't allow it." You can associate these proper certifications, limiting conditions with the appropriate scope of work, so.

Phil Treadwell:
So that's exciting too, because I mean, a few years ago, this is the conversation we were having around taking an application and point of sale, right? The forms that were supposed to be mobile friendly, and really all it is you're filling out these boxes where now, fortunately there are tools available where... you have a property picked out? Are you wanting to purchase refi? It's more question, answer. It's also more engaging from a lead conversion standpoint. I mean, obviously we talk a lot about marketing on this podcast. This is a way to create a stickier borrower. And that's something that I don't want to get kind of buried in some of this conversation about what's happening with the appraisals. These types of things for lenders create sticky borrowers, it keeps them working with you.

Phil Treadwell:
It's the same reason you develop a relationship and create the efficiencies, is you limit the need for them to shop with other lenders. You create efficiencies that all goes into pricing and fees and things of that nature. But if we run through Freddie's automated system and we get income and asset verifications, and we have at some point, some version of an abbreviated hybrid appraisal, or just a full appraisal waiver. Why does a borrower need to talk to anyone else? Because for the most part, there's only a couple of things left that we need to do to close and fund that loan for them. They don't want or need to talk to anyone else because we've made that very, very easy for them. And so I think that is a big why around why these things are important from a sales and origination perspective.

Phil Treadwell:
But I'd love for you to kind of talk about some of the whys for you guys, right? And I know that you guys have a very strong mission about the modernization and the responsibility in the market. And we talked a little bit about COVID and how that's changed things, but really a lot of these things went all the way back to the late 2000s and the wake of everything that came out of that. And not that we need to dissect all of it. But I remember in the wake of that, finding out that what we thought were some very reputable companies were manufacturing fake appraisals and collateral on these things. I mean, there's a lot of things that happened and we're not pointing fingers or going deep with that, but I'd love just from a high level view, talk about how that's kind of played into the mission vision values that Freddie Mac has in developing out some of these things.

Scott Reuter:
Yeah. I would say, setting aside the fraud piece, which always is a concern, I would say, again, I go back, Phil, to the sustainability piece and I just don't think the existing model on a lot of levels works anymore and it's struggling to work in its current environment. Right? So we touched on many of them, the existing appraiser capacity, the volume as it undulates from time to time and puts pressure on that capacity. Before waivers, we had one tool. And with waivers, it's pretty binary, so we've talked about that. And I just think there's a variety of things that are driving that focus that you're right, if you tie it back to our mission for liquidity, stability, sustainability in the market, we've got a system that doesn't during busy times do that.

Scott Reuter: And so I think that's the big driver, that's why we're focused on it. And modernization and innovation is going to come and it's change. And I talk to appraisers all the time and there's all kinds of stakeholder groups that react to this, and as well as humans adapt to change, we apparently resisted like crazy. So none of this is always, "Wow, that's exciting. Tell me more about it." It's like, "Well, why are you changing?"

Scott Reuter:
So part of it's the messaging, and then just getting appraiser adoption to understand that as one of these products comes through, it's not a fight. It's figure out how you can do it because to your point, tying it all the way back to the front end of the business, that's our customer, that's really the appraiser's customer too. And having a dad who was an appraiser... God love him. I learned a lot from him, but it was a lot of the customer service piece with everybody. Not only just do you dress appropriately, because you knock on the door and you actually represent the bank in his view, and or the lender. And I thought that was meaningful, but you absolutely do have that responsibility to ensure that you're covering all those details and all those points appropriately, so.

Phil Treadwell:
I love that. So this is more of a question directed for you. As someone who's an experienced appraiser, that's been doing this a long time and seeing different cycles in the industry and different requirements from not just the GSE's, but different lenders and whatnot, in the wake of what Freddie Mac's working on right now, what are you most excited about in these things? I don't know if it's a specific product or even just a philosophy, but what's most exciting for you about working on these projects and what we're doing in this industry?

Scott Reuter:
I think to me, the first thing that comes to mind, Phil, is the emerging tools and technology, honestly. And it's not... And again, appraisers wake up nervous and it's not to drive appraisers out of the... It can actually be tools in the hands of an appraiser, and it can be anything. And I'm fairly low IQ on the tech spectrum, but I love all the emerging tech, whether it's smartphone enabled apps, LiDAR, whether it's a lot of the 3D scanning technology, it can bring a lot more efficiency.

Scott Reuter:
I mean, you can measure a home with an app and then measure it again and get the same measurement, even if you and I are both appraisers and we independently go to a property. Right now, we don't see that with the human. And it's not a finger point at my fellow appraisers, it's just, I may round different than you, I may use a tape, you may use a laser. So and the house isn't changing sizes, right? I mean, if it's not had anything done to it, so it can also bring more precision and more accuracy. So I think really broadly, the possibilities for technology in the appraisal space are very wide and very broad.

Phil Treadwell:
I love that. And to your point, a lot of this is for the appraiser, this isn't working against the appraiser. There's not something where Freddie Mac is sitting there going, "All right, guys, we need to create some technology so we can get rid of appraisers." That's not what this is.

Scott Reuter:
That's right. Yeah.

Phil Treadwell:
You guys are mixing your pot of stew there, right?

Scott Reuter:
That's right. Exactly. Our little mad scientist is working away.

Phil Treadwell:
Right. Exactly. Well, I think that's why I love having these conversations is from an originator's perspective, from a loan officer's perspective, these are tools that you can provide clients, that you can provide the market and say, "Look, here's how we can make housing affordable. Here's how we can create efficient process and provide all those things." This is for appraisers to be more efficient in their job, to be able to provide more accurate information, to do it more timely and all those types of things. So it's super important in a challenging market, prices are increasing very, very quickly. I had said before we started the recording, we've got a couple of challenges that we're facing right now with those either from people moving in from more expensive markets that are willing to pay more than the home is going to come back on an appraiser.

Phil Treadwell:
And we did have one, this is an interesting... I'd love to get your take on this. We had a specific appraiser that wasn't sure that they could complete the appraisal because of the sheer difference that there was between a sales price and what they... They weren't providing a value. They're like, "Listen, just to my initial research inspection of the property, I don't know in the timeframe that you need this to be and what you're wanting. I just don't know if this is something that we can even do." And I'd not seen that before. I'd not seen... I think appraisers are really nervous in this market with what's happening because of some of the quote requirements that lenders have and the GSE's have.

Scott Reuter:
Yeah. And the last part touches on a disconnect I hear a lot, that we, the GSE's can go out and, just to speak for Freddie, we at Freddie Mac can go out and talk about what we'll accept. Here's our appraisal policy. Here's our minimum requirements, but then appraisers frequently and unabashedly will tell me, "Well, that's great for you to say, but when you do work for fill in the blank bank, they also have overlays." So, yours is the minimum, and then they want all this extra stuff. So that compounds it and can make it difficult as well.

Phil Treadwell:
These things that we're talking about, the tools, the UAD, and then the PDR, all of these are things that are going to help bridge the gap in these situations, to where it's not just all on the appraiser, right? Again, we've said in the beginning, this is a subjective thing that we're making objective decisions with. These tools are there to help provide the solution there.

Scott Reuter:
Yes. And then you would ask about your case where the appraiser actually chose maybe to step away from this time, because there was such a disparity between what they saw as a contract amount, as I understand it, and what they were able to support. That has been an ongoing problem through particularly these last two years where there's been tremendous demand, very low inventory, and home price appreciation has gone through the roof. Many appraisers nationwide... It frustrates me. A lot of appraisers do a good job, but many struggle saying, "Oh, I'm having difficulty and can't support the contract price with closed sales." See, you never will in a market that's increasing as fast as these markets have increased, because that's always going to lag, that sales, that tremendous sales volume and that market appreciation and the market conditions are such that you're not going to be able to. What appraisers are by and large resisting to do, is to do a market conditions analysis and apply appropriate adjustments.

Scott Reuter:
So if you're waiting for the sale to close, you're never going to support the value. I had a realtor tell me years ago, Phil, when I was in a similar market in appraising and I was struggling to get a value. And I said, "Am I missing something? I'm not seeing any of the sales activity." And she said, "Look, all I'm telling you is from a trending and forecasting perspective here, this deal goes down, I'm going to put the sign back up, and Saturday I'm going to have a dining room table full of offers again." It's just when markets like that aren't speaking to you, they're screaming at you, right? They're so active. So what appraisers need to be doing and a takeaway for a lot of your listeners, is there are appropriate ways that you can direct them to a lot of the market activity and the increases in market activity, that they can appropriately derive an adjustment that they can apply to an appraisal.

Phil Treadwell:

That might be one of the most valuable things that we talked about right there. I was writing that down. You said essentially, a market conditions adjustment based upon what's actually happening in the market to your point, what the appraised value is supposed to be is a market value of the demand for that particular property. And to your point, it doesn't appraise, they put the sign back in the yard and they have 10 more people willing to pay that. It's difficult for someone to say, "Well, that's not the value of the property," I think is what I'm hearing.

Scott Reuter:

That's absolutely right. I mean, markets that were changing one, one and a half percent a month. I mean, those were markets that you'd take an adjustment over. If you got a comp that's two, three months old, which in appraiser land is maybe pretty current, that comp may need 15, $20,000 just market conditions adjustment, nothing else. I've told an anecdote... My daughter, and she got married, and my daughter and son-in-law bought a home in West Lafayette, Indiana. And they call me because I'm the guy they need to talk to about real estate. So I said, "I don't know if it's such a great time." I just said, "I don't know that you're going to be able to negotiate on the price." Anyway, bottom line is they called and they were thrilled. They paid full sticker for a house, but she called me the first day and I said, "How'd it go?" And she said, "Well, the realtor had four showings scheduled and in the car, two of the houses sold," while they were out.

Scott Reuter:

So she said, "In an hour, our four house showing went down to two." And that was where I came up with the line that that market's not speaking to you, it's screaming. Things are moving so fast. So my point is, appraisers can't sit there with their head in the sand and just, "Oh, well, we have to wait for the neighbor's house to close." They absolutely need to do the appropriate marketing conditions. I will send you a link, and maybe our team can actually provide it, to our appraiser and collateral webpage, links off to all of our resources. We did articles on this, we've got our appraiser capacity information. And I really would encourage you and then any of your listeners to be able... It's all public, it's all stuff we've published, to really use those. And I would say too, be open to having that conversation with your appraiser. Appraisers with appraisal independence, when that first came out, it was, I think maybe misunderstood a little bit about by the industry. And there was some appraisers, I don't want to throw all my fellow appraisers under the bus, but I think there were a lot of appraisers that were just fine with the perception that you can't talk to me, which is not the case. I did a webinar a little over a year, two years ago now with the home builders. And we got on a digression about how can you talk to your appraiser? And they jumped on and they were going "Well, there's a lot of consumers on the line here. What can you say to an appraiser? And how can you talk to an appraiser?"

Scott Reuter:

And we thought... And again, there's a misconception that you can't talk to the appraiser. I said, "I'm telling you as an appraiser, you absolutely can talk to me. I want you to talk to me." If I'm an appraiser and I don't engage you in a conversation, shame on me. There's a lot of information that I can gain from talking to all parties along the line. I said, "Now that said, what you can't do is pressure the appraiser, period." And the appraiser has to control that part of the conversation. And I know on the front end, agents, or if you're involved in the sale and you're a party to it, you're going to be jazzed about it. And you're going to be selling, you just can't pressure the appraisers.

Scott Reuter:

So anyway, I want your listeners to know that I message very aggressively out to appraisers to say, you need to be open to that conversation. I'm telling the industry, they need to be talking to you and you need to be open to that information. Whether it's an agent back in the day, meeting on the porch with a packet and handing it to you with some comps that they ran. It may not be anything that's useful, but I think, again, this is my dad coming out, Phil, this is you politely take it, you look through and guess what? A percentage of the time there's going to be a gem in there you didn't know about. Now, it's going to be maybe an email. It's going to be more digital, but there'll be information that you need to absolutely be up, because agents and realtors to their credit, they're on the front end of the business. They absolutely generally have a greater sense of what's going on in that market, sometimes more than the appraiser right out the gate, so.

Phil Treadwell:

That's so good. And we're absolutely going to provide those links to the resources in the show notes. We'll get that from the team, because I think some of those links... Appraisers have been so busy, they don't even necessarily have all of the resources to know. I've been doing this a long time, about 18 years on the origination side, and a market conditions adjustment in markets like this makes total sense and is justified, but I've never heard anyone actually talking about that. So that's something we're going to... So I'm going to spread the word even internally within our company.

Phil Treadwell:
And the other thing that I thought was interesting about having those conversations, we as sales people, as originators... I was a guest on a podcast two days ago, and the conversation we had when he was asking in this environment and all of the different variables, the different questions, what would you tell a new person or experienced person to be successful?

Phil Treadwell:
And the piece of advice I has is you need to have a real conversation with your client, a real conversation with a borrower. If you don't know what someone's trying to accomplish, you can't accurately advise them on the type of mortgage and loan process they need. I think that's the same message to appraisers is have conversations. One of my early mentors said, "Hey, information is a buffet. Take what you can use and leave the rest." Right? And so, whatever you said that about, you had maybe a gym in there, I thought to myself, "Man, that's the key lime pie you want at the buffet, but I don't want that bread pudding. I'm going to leave that there."

Scott Reuter:
That's right. I'll let that one sit. No, absolutely. No, that's great. That's great.

Phil Treadwell:
Well, Scott, I appreciate you taking some time. I want to be a good steward of it. I want to ask you one last question. We ask this of all of our guests, and this is something you may have heard whenever you listen to a few episodes, which is, if you could just give one tip to mortgage professionals today to go out to build their business, what would it be?

Scott Reuter:
Talk to your appraiser. I would say, absolutely talk to your appraiser. And your folks will do it great, you do it professionally. If an appraiser's not open to it, you can politely and professionally remind them that you are able to talk to them. You need to share information with them. It's appropriate and it's not crossing any line that they're familiar with AIR, which is AIR, Appraiser Independent Requirements. It's published in our guide and they absolutely can have that conversation. I think it's vital. And I think selfishly appraisers would benefit from that. And I think it would help engender a better kind of working relationship with a lot of the front end of the business and agents, realtors, and mortgage professionals, so.

Phil Treadwell:
Love that. Scott, I appreciate, this has been a wealth of information and very timely with what's going on and appreciate all that you are doing for the industry at Freddie Mac. And we look forward to continuing the conversation and catching up again really soon.

Scott Reuter:
Awesome, Phil, anytime. Thank you