

WRITTEN TESTIMONY OF MR. RUSSELL JOHNSON, CHIEF REVENUE OFFICER OF CLEAR CAPITAL, BEFORE THE HOUSE COMMITTEE ON VETERANS AFFAIRS' SUBCOMMITTEE ON ECONOMIC OPPORTUNITY, for hearing set 4 April 2017, 2 pm.

Chairman Arrington, Ranking Member O'Rourke, and members of this subcommittee: on behalf of Clear Capital, I am pleased to appear today to talk about how new ideas of efficient appraisals can help veterans realize homeownership by utilizing the Home Loan program from the United States Department of Veterans Affairs.

I am a veteran of the US military, having served more than 4 years in the United States Navy as a Deep Sea Diver. My duty stations include: SIMA Dive Locker Guantanamo Bay Cuba, USS Acadia (AD-42) Dive Team, Mobile Diving and Salvage Unit Det. 1, Explosive Ordnance Disposal Group Coronado.

I have purchased homes but have not used my Department of Veterans Affairs housing benefit. In my experience, I have personally dealt with real estate brokers and lenders who portray the VA program as too complex, expensive, and time consuming.

Thus, I realize that I was steered away from using my benefit and toward conventional mortgages. I also know that such actions are not practiced by most real estate brokers or lenders and are certainly not the policy espoused by state, local or national associations such as the National Association of Realtors (NAR) or the various lending associations. Nonetheless, this was my personal experience in the lending process. I believe that veterans should enjoy using the VA's mortgage guaranty benefit provided to them for their service. They have truly earned this benefit, and our country is better served when veterans are appreciated and when they become homeowners.

The VA home loan benefit should be perceived by veterans, and the broader market, as an efficient, expeditious, and positive experience. I am here today in a capacity where I believe I can help my fellow veterans have an improved home buying experience and increase usage of this benefit and the program. The VA Home Loan benefit is an extraordinary benefit that, not only assists with the financial aspects of purchasing a home, but also provides a service to help veterans with one of the biggest financial decisions of their lives. This is particularly important because, similar to many Americans, most veterans have very little experience with purchasing a home and working with the mortgage lending community.

I work for an organization called Clear Capital. Clear Capital's focus is applying new technologies to solve real estate valuation problems with the highest degree of integrity, quality, and customer service to the mortgage lending, investing, and housing industry. My experience with Clear Capital has allowed me to observe a way veterans could be served in a more efficient manner, and improve the experience of using the Veterans Home Loan Guaranty Benefit. I would like to explore these methods of using technology and new approaches to solve real problems affecting our veterans today.

Over the past few years and across all home purchase products – VA and non-VA loans – appraisal wait times and costs have risen significantly in some pockets of the country. In large part, this is a result of a shortage of appraisers in some markets. The shortage of appraisers is slightly exaggerated with the VA program because, as I understand it, the appraisal is more specialized, using separately-approved appraisers, to ensure greater protection of the veteran homebuyer. Unfortunately, during some peak lending periods, the result in some areas of the country has been that veterans must wait weeks for an appraisal that can cost hundreds of dollars more to obtain. Since the mortgage applicant pays directly for an appraisal the extra cost is borne by the veteran mortgage applicants. (Although the cost of an appraisal in the non-VA market is also borne by the borrower, such costs are somewhat less.)

In addition, the perception of lengthy cycle times for appraisals can result in a veteran being steered away from this valuable earned benefit in favor of a quicker process through a conventional or FHA program. While the VA has lead an effort with other stakeholders to make the VA home mortgage more accepted by market participants, including real estate agents and lenders, some steering likely occurs due to the different and sometimes lengthier appraisal times.

In fact, in a recent survey by the National Association of Realtors, VA loans were identified as the appraisal assignments that responding appraisers were most likely not to perform.

I have been asked to provide Congress with information on alternative appraisal options in addition to the traditional appraisal process used today. In doing so, I'd like to pose two key questions to evaluate any such new ideas:

First, do any new potential appraisal approaches save a veteran money, and speed the process of obtaining for the veteran this valuable mortgage guaranty benefit?

Second, do these approaches provide the necessary Quality Control over time to protect both the veteran and the soundness of the VA Mortgage Guaranty program?

If yes to the first two questions, what would a proper timeframe and implementation process look like?

The appraisal remains an integral component of the mortgage finance industry. In the 1980's the United States experienced a major financial crisis in the Savings and Loan industry that was fueled in part by faulty and fraudulent appraisals. Congress passed the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) to address the crisis and implement industry reforms. Title XI of FIRREA created the appraiser regulatory system we have in place today. Subsequently the standards for independence of the appraiser were enhanced by the Home Valuation Code of Conduct (HVCC). And finally, after the 2008 housing crisis, the appraisal independence system was codified in Dodd-Frank. The latter two developments were to ensure and to

increase the independence of appraisers from interested parties in a real estate transaction.

The appraiser regulatory structure implemented by the passage of the Dodd-Frank Act in 2010 greatly expanded the federal government's role in appraisal oversight with new requirements for appraisals, appraisers, and appraisal management companies. Regulatory authority was transferred to the newly formed Consumer Financial Protection Bureau to further support protections to borrowers designed to eliminate predatory lending practices.

The real estate valuation industry is evolving in a number of ways that we believe can aid the efficiency of appraisers in the important role they play in the mortgage lending process. New data and analytics are being developed to assist the appraiser in their consideration of a property, its local market and ultimately its value. Efforts are underway to attract more participants into the appraisal profession, and to reinvigorate the use of trainees in support of an efficient and reliable appraisal process.

With the advent of new products, services and analytics, Clear Capital suggests that the VA consider the use of a desktop appraisal, based on the physical inspection of a subject property by an industry professional, where appropriate as an option by the Department of Veterans Affairs. The product is a hybrid of traditional appraisal process and methods and leverages a qualified, arms-length, real estate professional, such as a real estate broker or agent, performing a visual inspection of the subject property and providing other market insight and analytics.

The inspection and other market data are provided to a geographically-competent, licensed appraiser for analysis, along with supporting data such as real-time MLS information, public records, and local market data and analytics. The appraiser analyzes all the information and data and concludes the final value of the property.

Desktop appraisals continue to evolve in conformity with both the Uniform Standards of Professional Appraisal Practice (USPAP) as well as the evaluation requirements in the Interagency Appraisal and Evaluation Guidelines.

It is important to note that the desktop appraisal is not new to the marketplace. It is currently used in the home equity space, the servicing space, and within financial markets with great success. Applying these methods and techniques that are currently already used by many market participants will allow our valued veterans to improve their experience with the VA program.

Now let's return to our key questions. First, how does this help the veteran?

The desktop appraisal process allows a single appraiser to complete several more appraisals per day than is possible with the traditional approach. In some parts of the country, an appraiser spends 30% of his or her time driving to and from a property. This is not a productive use of time for these skilled and knowledgeable professionals.

Neither should an appraiser necessarily need to spend valuable time taking room measurements. Rather, wherever possible the appraiser should be applying their expertise and knowledge by performing the analysis of data and information about a property, in order to arrive at a solid property valuation. He or she should not need to be an Uber-driver, or handle a tape measure, or be a photographer, for hours on end for every valuation assignment. This only drives up the cost of an appraisal—to the veteran, remember—and slows the decision-making process.

Today's technology makes it possible for detailed property measurements, characteristics, market comparables and other detailed information to be delivered to the appraisers within minutes of collection. This wasn't possible 40 years ago when the current model was created. Today we can very quickly provide the appraisers with the information they need to perform accurate and timely appraisals of the highest quality.

Second, does this option provide the necessary Quality Control to protect both the veteran and the integrity and soundness of the VA program? Yes.

We believe that high quality desktop valuation reports can be generated in a broad range of scenarios by leveraging increased access to data and analytics in the real estate industry and focusing an appraiser's professional expertise on efficiently evaluating the credible information provided for analysis. Appraisers completing these reports would remain subject to the same licensing and certification requirements, as well as the standards provided under USPAP. Likewise, the process could be rolled out in agreed upon use cases for completion by appraisers on the VA panel, and subject to appropriate quality assurance reviews.

In many situations, value thresholds and other complexity factors will require a traditional appraisal; in addition, in some parts of the country, veterans do not experience price squeezes or extended wait times. However, where lead times are long, costs are high, and resources are increasingly scarce we must create a more efficient model. Providing a solution that allows an appraiser to apply their expertise in an environment of highest quality and reduced time to complete each appraisal will reduce costs to the veteran, will reduce the time to close, and greatly improve the veteran's experience when using this benefit, thus increasing veteran adoption of this good program and increasing veteran home ownership.

To conclude, the VA home guarantee program is a gem. It has rewarded our veterans and active-duty personnel with an incredible, and unique, earned benefit. It has allowed them to improve their economic opportunity by accruing home ownership equity. This earned benefit program, thanks to the VA staff and lenders, performed exceptionally well during the last downturn, avoiding the problems other mortgage programs had with faulty underwriting and inadequate servicing processes. It's a program of which we should all be proud. At the same time, we must work together to ensure that going forward, this program continues to serve the veterans and active-duty servicemembers efficiently, cost-effectively, and carefully. I want to thank the Economic Opportunity Subcommittee for having me in today, and thank the VA staff for their dedication.