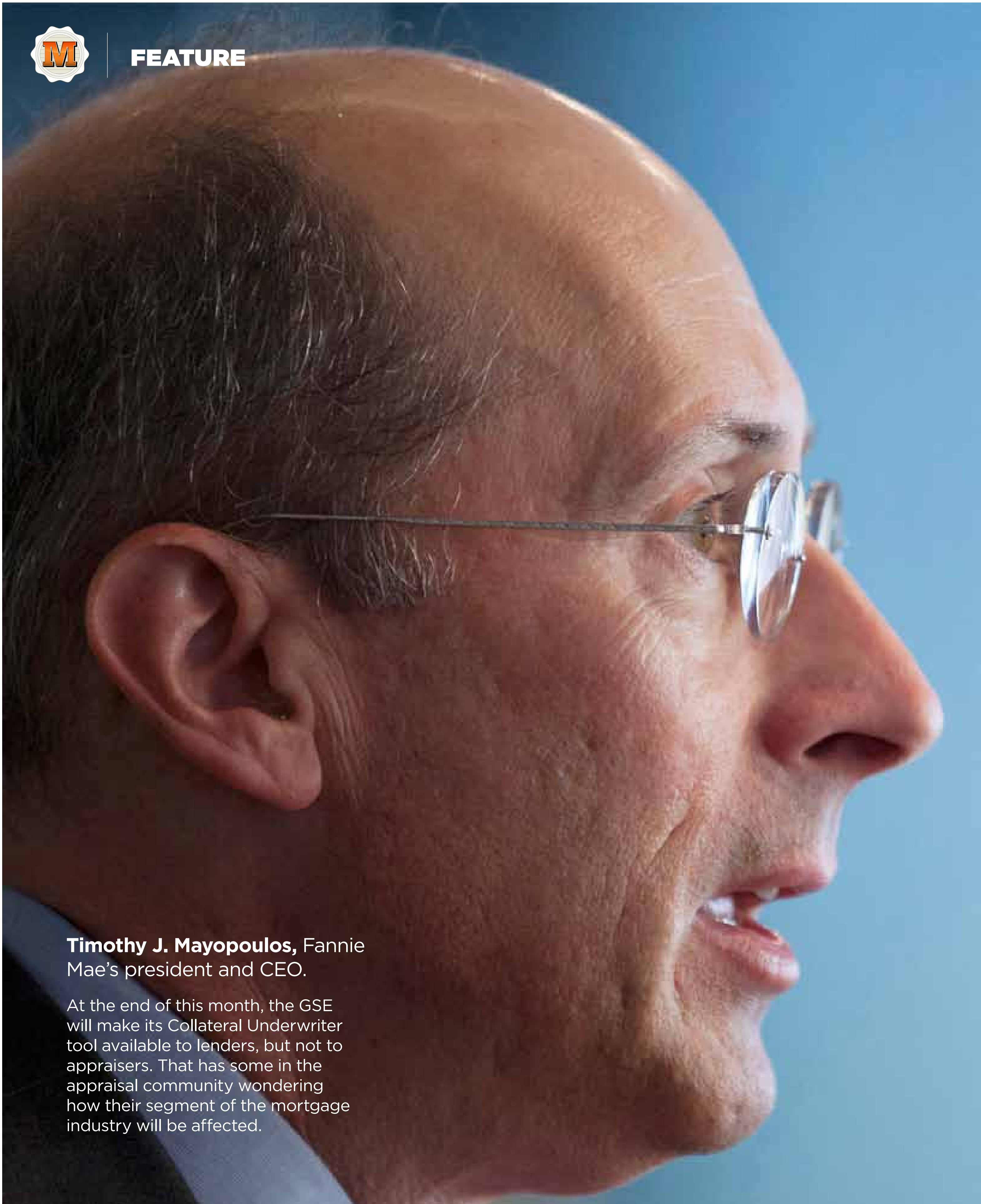

Timothy J. Mayopoulos, Fannie Mae's president and CEO.

At the end of this month, the GSE will make its Collateral Underwriter tool available to lenders, but not to appraisers. That has some in the appraisal community wondering how their segment of the mortgage industry will be affected.

Collateral Damage?

Within weeks, Fannie Mae will allow lenders—but not appraisers—access to its Collateral Underwriter analytic tool. Should appraisers be nervous? Or will increasing transparency keep the quality of appraisals high?

By **Brandon Boudreau,** COO of Metro-West Appraisal Co. LLC

This month, Fannie Mae makes the Collateral Underwriter analytic tool (CU), and its subsequent feedback, available to lenders and their agent appraisal management companies (AMCs).

While CU is the most robust and intuitive appraisal data aggregator ever created, it is not a new application. But now overall collateral risk scores and insights into appraisal reports will be shared proactively during the underwriting process in an attempt at quality control. Essentially, lenders will now have access to the same appraisal analytics used in Fannie Mae's quality control process.

CU works by accessing the Fannie Mae database that collects data from appraisal reports submitted through the Uniform Collateral Data Portal (UCDP). This comprehensive approach has been in the works for years. It got a very big boost when Fannie Mae required appraisal reports to be completed in the Uniform Appraisal Dataset (UAD), which standardized appraisal data reporting.

Since this requirement went into effect, the UCDP has so far collected more than 12 million appraisals and almost 20 million transactions. Once the appraisal report has been uploaded by the lender or AMC, CU performs an automated risk assessment of the appraisal and provides a risk score, flags, and messages.

While the use of CU is not mandatory for Fannie Mae sellers, the GSE strongly encourages it. Of course, lenders will want to reduce their risk of a buyback for appraisal deficiencies, so widespread utilization of CU feedback is expected.

According to Fannie Mae, the current requirements and expectations for lenders are not fundamentally changing. The Fannie Mae Selling Guide specifies that the lender is responsible for (among other requirements): "ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy. ..."

In short, the lender is not off the hook just because they employ the new tool.

Apparently, lenders and AMCs welcome the move to transparency during the underwriting process and their inclusion into Fannie Mae's quality assurance practice. This change should further improve the overall quality of appraisals. Fannie's primary focus as it rolls out CU to UCDP users will be educating underwriters on its use.

But not everyone in the industry is optimistic about this release. Appraisers are particularly skeptical, given that Fannie Mae has no plans—either now or in the foreseeable future—to make the CU tool available to them.

According to Fannie Mae, CU was originally developed as an appraisal-review tool for internal analysis. It's not an independent property database that allows users to enter an address and receive associated data, the agency says. Therefore, the argument goes, appraisers don't need access to the tool.

Despite Fannie Mae's willingness to educate appraisers how CU works from a high level, appraisers are naturally concerned with the extra pressure this could put on them, whether the future use of CU analysis will grow beyond its stated parameters, and what any unintended consequences of both might wrought.

Then there's a very real sense of exploitation, as the data that powers CU is supplied day in, day out by the thousands of appraisers who have no access to Fannie Mae's quality-control tool.

Appraisers want to know how this will affect their past appraisals and what it will mean for their future ones. Recently, the Illinois Coalition of Appraisal Professionals (ICAP) drafted an online petition to allow appraisers access to the data that they provided through UAD. It's one of many formal (and informal) requests for the CU transparency to reach all boots-on-the ground appraisers.

One of the common concerns is the ranking system in which CU scores "the best 20" comparable properties. For an example, if an appraiser uses comparable No. 1, No. 3, and No. 5 on the list, does this automatically elicit a rejection from a lender back to the appraiser to inquire why comps No. 2 and No. 4 were not used? How deep will lenders interpret the data? Will lenders ask for clarification on all properties listed by CU?

The fear of higher revision rates and bottlenecking the appraisal process—or to put it more bluntly, creating more work for the same pay—has appraisers legitimately concerned.

Their fear is that clients who use the tool will exhaust minimal diligence on their own to determine if there is enough support with the sales already used in the appraisal and if there is validity with the other sales supplied by CU that will lend meaningful support to the appraisal assignment.

If the approach by the lenders and AMCs is to simply disseminate to the appraiser the list of other properties they perceive to be comparable to add to reports, the already-low morale of your everyday appraiser will sink further.

While this concern is valid, there is already a vast amount of appraisal review tools in use by lenders and AMCs that do the same thing as CU. So a revision to the appraiser inquiring about alternative comps is nothing new. But, the concern with CU is that the amount and depth of requests will increase substantially by the end of the month.

Another common refrain from the field of appraisers is how to walk the fine line of value pressure. This is a much-contested argument among appraisers as the definition of pressure seems to be very broad within the profession.

There's a large segment of appraisers who already feel pressured in the current environment and there is another equally large segment that cite zero pressure at all. The lending process is time-sensitive (e.g. loan locks, closings). So will the requests to consider more properties be placed in a rushed manner, creating more pressure for the appraiser? After CU takes effect, some of these requests will come in later than they are now.

In the process of underwriting an appraisal, it is the lender's responsibility to ensure appraisers are meeting Fannie Mae's requirements. The manner and, in my opinion, the intentions of Fannie Mae with the release of CU is a great step toward better appraisal quality and transparency. If the tool is used as it was designed—for underwriters, or anyone reviewing an appraisal report, to gain deeper clarity into the appraiser's thoughts and selection process—then this will be another impactful advancement in the valuation profession.

Though it was never even on the table, Fannie Mae seems to have some genuine concerns with sharing the CU with appraisers. CU was not built to run upfront; it needs the appraisal report to be complete to run its analysis. This seems like an obstacle that could be overcome by technology. Another possible reason why Fannie Mae is not granting access to the appraiser upfront is to avoid steering of comp selection or making suggestions to value at

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the time of engagement. Would it be considered value pressure (high or low) delivering this data at the time of engagement?

There are also many other aspects of CU that go beyond just comparable selection. The tool can confirm the accuracy of data in the report (sales dates, sales prices, bedroom/bath count, gross living area, as well as many other data points). Because the database is intuitive, it becomes more robust with every appraisal report submitted. This way individual properties' overall quality and condition ratings determined by appraisers can be aggregated and inconsistencies can be easily identified. When they are identified, the user of CU can ask the appraiser for clarification.

This is a great check and balance for the industry and something that should be asked after submission so appraisers are not steered to simply conform with the general consensus of their peers if they legitimately have a different opinion. Appraisers should also already have access to much of the market data used by CU and in the appraisal review.

It's understandable that some appraisers feel the way they do. Their hard work laid CU's foundation and continues to contribute to its database. By most accounts, there's too much back-and-forth among all parties around an appraisal's development and conclusions. The lack of appraiser inclusion with the tool does seem to point to future increases in revision requests. Only after the adoption of the CU industrywide will we see if this commonly held belief is true.

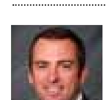
There is no question that all parties (GSE, lender, AMC, appraiser, and consumer) would benefit from fewer revisions. Appraisers and underwriters do have the power to keep this at bay. It goes back to the basics. Appraisers need to anticipate that questions will arise and they'll have to proactively address them thoroughly and concisely within their reports.

If the appraisers perform competently, supply data to support their conclusions, and can defend their comp selections, adjustments and ultimate value conclusions, they should expect minimum feedback from CU or any appraisal review tool.

The solution to reduce revisions also lies with the underwriters and appraisal reviewers. Proper upfront training and a commitment to fair diligence to make prudent decisions around collateral risk will reduce frivolous requests that only serve to delay the process and waste time. More education and tools for underwriters is unequivocally a good thing for everybody.

The best way to keep improving the quality of appraisals is to make sure all parties are on the same page and share the same approach. Everyone's intentions seem good and their differences seem reasonable. Hopefully a solution can be found to maintain the spirit and improvement the industry has pursued over the past six years.

Who knows? Maybe CU will help everyone in the process better understand the appraisers' reports, reduce revisions, and raise the bar on appraisal quality standards. **M**



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