GSE FOCUS

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INDUSTRY UPDATE

Fannie Mae has launched an Appraiser Quality Monitoring program to monitor and evaluate appraisals for data accuracy and consistency. Over the past several months, we’ve seen critical changes announced that will have a large impact on appraisal operations for all lenders and AMCs. The GSEs and investors are requiring a pre-funding appraisal QC process, and many lenders and AMCs are looking for the most effective and efficient route to compliance with the new guidelines.

Fannie Mae has made several key announcements regarding this program. Each of these is discussed in further detail beginning on page 4 of this industry update.

See the new landing page from Fannie Mae here: http://alashort.com/1hXLT9e

July 30th, 2013
New Selling Guide Announcement: Requiring appraisal QC pre-funding
http://alashort.com/KVSJhi

September 24th, 2013
New UCDP warning messages announced: Consistency and accuracy are high priorities
http://alashort.com/1dw14oh

December 10th, 2013
Updated: New UCDP messages are active
Lender Letter LL-2013-10 issued regarding appraisal quality with QC issue examples provided
http://alashort.com/1dQUN1d

January 7th, 2014
The Appraiser Quality Monitoring program website is released, and lenders begin receiving notifications on specific appraisers
http://alashort.com/1hXLT9e

Most lenders and AMCs have reviewed each of these announcements from Fannie Mae, but on the following two pages, we have some exclusive examples of the notification letters dated January 7th that lenders have received.
Fannie Mae

January 7, 2014

[Redacted]

Compliance Manager

[Redacted]

[Redacted]

[Redacted]

State License Number: [Redacted]
License Certificate Type: Certified Residential Appraiser

Dear [Redacted],

Fannie Mae reviews appraisals it receives in connection with mortgages that it acquires or securitizes. We recently conducted a review of appraisals performed by [Redacted]. That review revealed several violations of the Fannie Mae Selling Guide.

This letter serves as notice that due to the violations, which are identified below, we will begin reviewing all appraisals by this appraiser that are delivered to Fannie Mae for compliance with Fannie Mae’s Selling Guide.

Based on the appraisals Fannie Mae reviewed, we have determined that the appraiser engaged in the following unacceptable appraisal practices, in violation of Section B4-1.1-01 of the Fannie Mae 2012 and 2013 Selling Guides:

1. Development of and/or reporting an opinion of market value that is not supportable by market data or is misleading.
   - For example, a review of one of [Redacted] appraisals found the appraised value to be inflated by some $62,500 and 42%, indicating a true LTV for the loan of 110%.

2. Selection and use of inappropriate comparable sales: failure to use comparable sales that are the most locationally and physically similar to the subject property.
   - For example, the appraiser selected comparables that were physically and locationally dissimilar even though more proximate and physically similar comparables were available.

3. Failure to adequately analyze and report any current contract of sale, option, offering or listing of the subject property and the prior sales of the subject property and the comparable sales.
   - For example, in one appraisal the appraiser used a comparable sale that transacted for [Redacted]. The prior sale for [Redacted] just six days before was reported but the appraiser did not provide an analysis and reconciliation of the two sales.

4. Misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales.
   - For example, in one appraisal, information on the condition, quality, basement count and finished basement areas of various comparables were found to be misstated.

Questions regarding this notice may be addressed to your Customer Account Manager or sent to appraiser_quality_monitoring@fanniemae.com.
Have more samples of letters like this? If so, let us know at info@MercuryVMP.com. With your permission, we'll redact and share with the industry.
BRIEF HISTORY

On July 30th, Fannie Mae issued a Selling Guide Announcement with appraisal QC requirements that directly affect your appraisal operations. Pre-funding, investors and regulators want every appraisal to undergo a documented, consistent QC process. This is not the full list, but we’ve highlighted a few specific requirements that many lenders and AMCs may not have in place yet:

- Your QC program must be documented and incorporate systems and processes for achieving your QC standards.
- Your program must specify the location of QC findings and all related QC documentation. This requirement eliminates the mental checklist or spreadsheets that many use. In repurchase requests or exams, you need a documented QC audit trail.
- You must develop severity levels to categorize defects. QC scoring with severity levels is useful to streamline your internal operations since you can more effectively triage files to the appropriately experienced underwriters for each score range.
- You must report on QC findings monthly to senior management. Without a consistent QC process and system, meaningful reporting will be very difficult. Trends and overall findings of all your QC staff can’t be determined without a standard process that eliminates as much subjectivity as possible.
- Your QC process has to include stated data and documents, so you can ensure the data relied upon in making the underwriting decision is accurate. This last requirement makes clear that these new standards apply to a review of the appraisal.

Get the full Selling Guide Announcement here: http://alashort.com/KVSJhi
Announced in September, UCDP expands to include QC messages

Their requirements will eventually be enforced through the submission platform, Uniform Collateral Data Portal, or UCDP. The Fannie Mae UCDP Release Notes from September 24th let us know it’s coming faster than most expected, and they’re probably in place by the time you read this. The full Release Notes can be found here: https://www.fanniemae.com/content/release_notes/ucdp-release-notes-11092013.pdf

For now, these are warning messages and won’t prevent a “successful” UCDP submission, but warnings will transition to errors. When you take a look at these messages, you’ll quickly see the GSEs’ focus is emphasizing pre-funding quality control and consistency. Here’s just one example:

FNM0189: The appraiser indicated a condition rating for the subject property of C3 or greater. However, the age and update history of the subject property appear to support a condition rating of C1 or C2. Verify that the reported condition rating and actual age of the property are accurate.

What’s coming: UCDP’s future QC focus

Investors have spoken at industry conferences, frequently stating that UCDP warning messages that will go even further, and provide a comparison of data aggregated across the entire platform from various appraisers. An example of these types of warnings would look like this:

The appraiser indicated a condition rating for the subject property of C2. 83% of appraisers have rated this property a C3. Verify that the reported condition rating is accurate.

In addition, “self discrepancies” will be noted. Examples of these types of warnings could look like this:

The appraiser indicated a condition rating for the subject property of C2. The same appraiser used this property as a comparable in another assignment with a condition rating of C3. Verify that the reported condition rating is accurate.

The Selling Guide Announcement referenced on page four of this document gives a good overview of their requirements, but seeing the actual warnings and errors they’re planning to give you when you submit an appraisal gives the industry a really good idea of what the GSEs expect your QC process to uncover.
**December 10th, 2013: UCDP quality control messages are live in the portal**

The new UCDP messages regarding Appraisal Quality Monitoring are now live in the portal, so that if an appraisal is performed by specific vendors, warning messages will be returned regarding possible additional Fannie Mae review.

**December 10th, 2013: Lender Letter LL-2013-10**

On December 10th, Fannie Mae issued Lender Letter LL-2013-10 addressing appraisal quality. The purpose of the letter was to remind lenders of the appraiser selection requirements and to share several data quality issues. The letter includes two valuable examples of inaccuracies and inconsistencies identified during Fannie Mae's appraisal reviews. The full letter can be found here:

https://www.fanniemae.com/content/announcement/ll1310.pdf

**January 7th, 2014**

On January 7th, Fannie Mae launched a new page on their website with FAQs, related links, and guidance on how to access to the appraisal quality monitoring lists. Find it here:

https://www.fanniemae.com/singlefamily/appraiser-quality-monitoring
ADDITIONAL RESOURCE

Free industry collaborative white paper
An in-depth look at appraisal quality control written by industry leaders. Topics include:

- Regulatory overview
- Institutional Risks
- Ten critical warning signs
- A technology-based QC workflow example

Get it free here: www.MercuryVMP.com/QC
COMPLIANCE SOLUTION

Mercury Network’s Appraisal Quality Management (AQM)
Released in early 2013, Mercury Network’s AQM system is available now to any lender or AMC, regardless of the appraisal management system or software they use, as a SaaS-based appraisal QC system for compliance. With AQM, you can ensure comprehensive, consistent QC of your appraisals across all business channels, and automatically document your due diligence for inclusion in the loan file.

With AQM, lenders and AMCs can operate a compliant, comprehensive collateral quality control process. It transforms inconsistent QC checks into efficient, consistent, thorough, and documented operations. A full audit trail automatically memorializes your due diligence for investors and regulators and the process is transparent and simple to follow.

AQM then provides an Appraisal Quality Index (AQI) report, which professionally presents any issues that need your attention. For documented compliance and the highest quality valuations, AQM is an essential system that simultaneously streamlines operations, reduces cost, and dramatically reduces risk.

AQM is the result of decades of experience providing appraisal workflow solutions for the largest lenders and AMCs, combined with our position as the dominant technology provider for appraisers, and you won’t find it anywhere but Mercury Network. If you’ve got appraisal compliance issues, trust us. We’ve already solved them.

To get a full demonstration of AQM, call 1-800-434-7260.
Fannie and Freddie Aim for Mortgages with 'Zero Defects'
By Kate Berry in American Banker
September 17th, 2013
Download the PDF:  http://alashort.com/181czf5
(No subscription required)

“Our expectation is zero defects,” said Steve Spies, a vice president of loan quality and lender assessment at Fannie Mae.

GSEs Still Finding Problems With Home Appraisals
Appraisal Institute, Appraiser News Online
September 18th, 2013
Digital version:  http://alashort.com/1qEW071
(No subscription required)

“The Federal Housing Administration, which oversees the GSEs, estimated that approximately 35% of repurchases that require lenders to buy back a loan are tied to faulty appraisals.”

Taking a Look At Appraisal Quality
PROGRESS in Lending Association
October 23rd, 2012
Digital version:  http://alashort.com/1cObBZV
(No subscription required)
Visit www.MercuryVMP.com/AQM or call 1-800-434-7260.

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