

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>

Exclusive:

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.



Samples received:

APPRAISER REVIEW LETTERS

Sample A



3900 Wisconsin Avenue, NW
Washington, DC 20016-2892
202 752 7000

January 7, 2014

██████████
Compliance Manager
██████████
██████████
██████████

Re: ██████████ an ██████████ appraiser
State License Number: ██████████
License Certificate Type: Certified Residential Appraiser

Dear ██████████

Fannie Mae reviews appraisals it receives in connection with mortgages that it acquires or securitizes. We recently conducted a review of appraisals performed by ██████████. 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 ██████████ 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 \$██████████. The prior sale for ██████████ 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, bathroom 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.

Sample B



3900 Wisconsin Avenue, N
Washington, DC 20016-288
202 752 7000

January 7, 2014

[REDACTED]
Compliance Manager
[REDACTED]
[REDACTED]
[REDACTED]

Re: [REDACTED] appraiser
State License Number: [REDACTED]
License Certificate Type: Certified Residential Appraiser

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.

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] during 2012 - 2013. 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 Guide:

1. Significantly inflated appraised values:
 - For example, a review of one of [REDACTED] appraisals found the appraised value to be inflated by some \$65,000 and 53%, indicating a true LTV for the loan of 119%.
2. Selection and use of inappropriate comparable sales; failure to use comparable sales that are most locationally and physically similar to the subject property:
 - For example, the appraiser selected comparables that were physically and locationally dissimilar though more proximate and physically similar comparables were available.
- Misstated or inaccurate characteristics of the subject or comparables:
 - For example, the gross living areas of all three comparable sales in one appraisal were found to be markedly understated in a manner that favored a higher appraised value.
 - In the same appraisal, one comparable was reported to be 1.75 miles from the subject whereas Fannie Mae's research found it to be more than 3.5 miles away. Furthermore, the map included with the report showed the comparable to be in the more proximate, albeit, incorrect location.
3. Failure to disclose adverse external influences:
 - For example, the appraiser failed to disclose a subject's extremely close proximity to a regional airport.

BRIEF HISTORY

July 30th, 2013

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>



Selling Guide Announcement SEL-2013-05

July 30, 2013

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- Lender Quality Control Requirements
- Miscellaneous *Selling Guide* Updates

Each of the updates is described below. The affected chapters and topics are noted for each policy change. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated July 30, 2013.

Lender Quality Control Requirements

An effective quality control (QC) program is a key component of a strong control environment. Fannie Mae has

Sept 24th, 2013

New UCDP
warnings

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

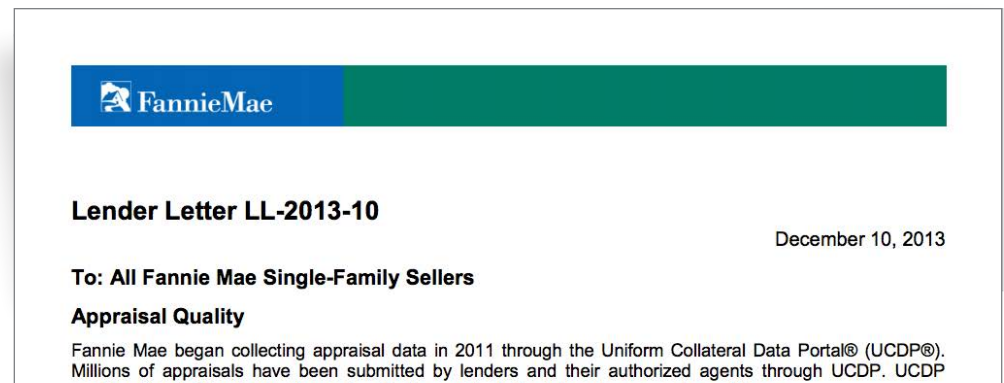
The new UCDP messages regarding Appraisal Quality Monitoring are now live in the portal, so that if an appraisal is performed by specific vendors, warning messages will be returned regarding possible additional Fannie Mae review.

Dec 10th, 2013

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>

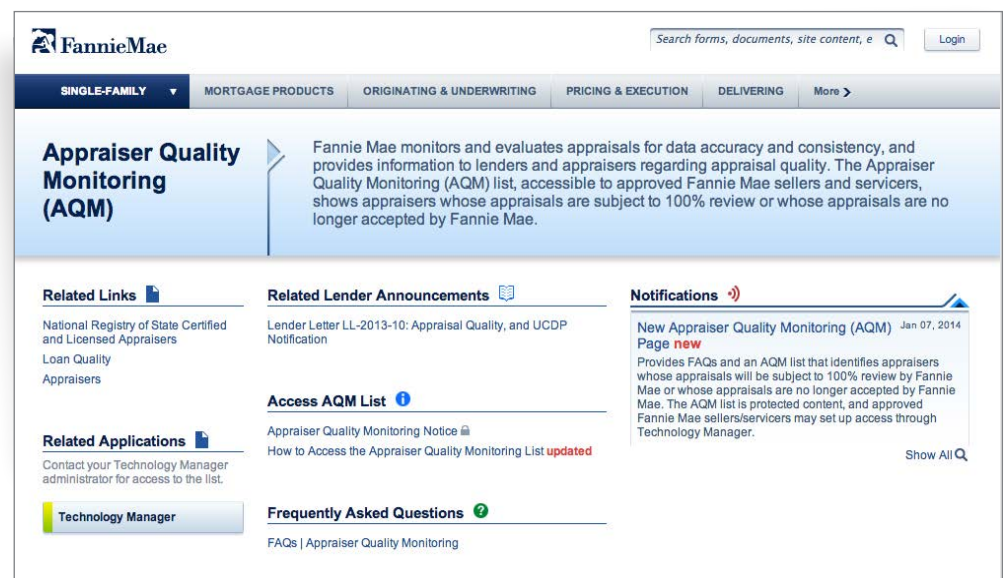


Jan 7th, 2014

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

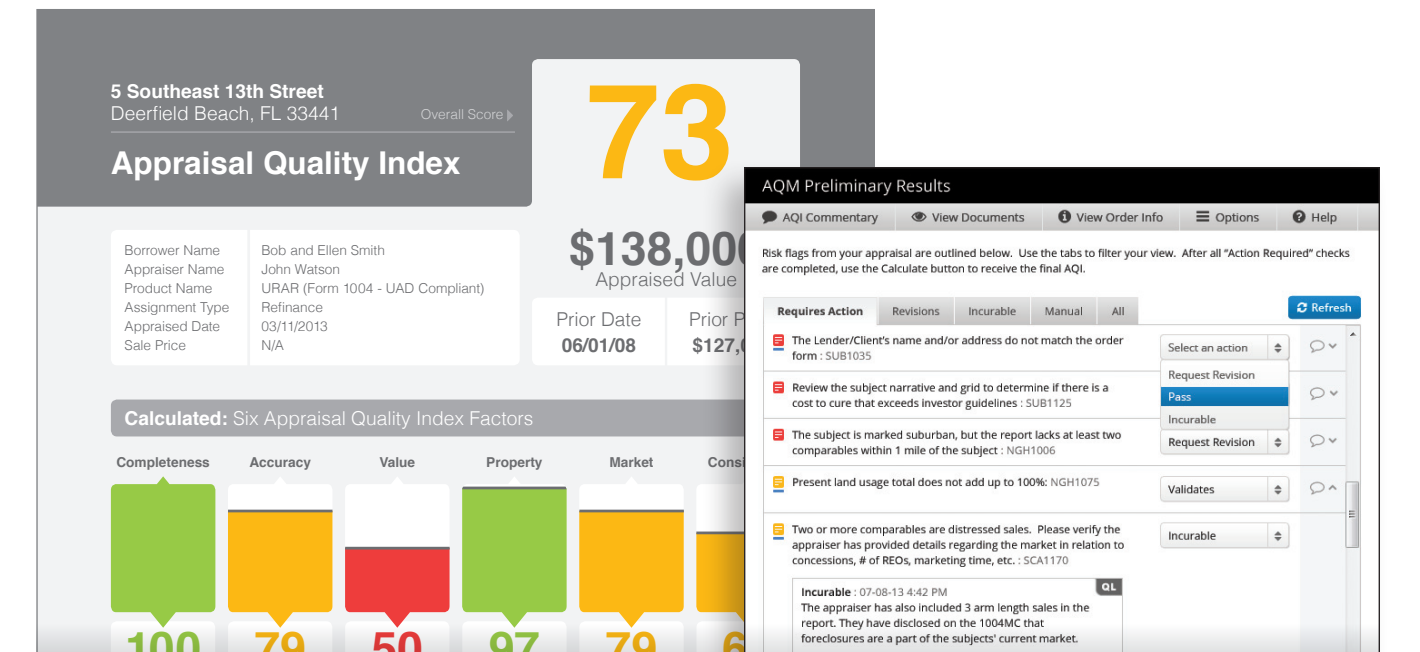
Get it free here: www.MercuryVMP.com/QC



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.



INDUSTRY ARTICLES

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)



THE FINANCIAL SERVICES DAILY

Wednesday September 17, 2013

Fannie and Freddie Aim for Mortgages with 'Zero Defects'

By Kate Berry

Fannie Mae and Freddie Mac are about to get tougher on banks and other lenders that cut corners when originating mortgages and try to sell them to the government. For the programs, mortgage feedback and government require lenders to look at the past, it means and force them to be better. "Our president Fannie Mae conference. Theore only qual admit th to flag, if the GSE, the loans past whe acquired. All rev Fannie as "It's a w Spies said data, whi GSE of reduc improve The GS defects a managem

for. If your senior manager can't talk to us about loan quality then your governance evaluation is going to be weak." The GSEs' initiative has taken on added urgency as

APPRAISER NEWS ONLINE

Your news, every Wednesday

September 18, 2013

GSEs Still Finding Problems with Home Appraisals

Three years after the creation of a database seeking to standardize the home appraisal continue to see major issues in numerous appraisals submitted by mortgage lenders, Fannie Mae conducted a sampling of appraisals and determined that 17.6 percent con pertaining to the condition or quality of the property, Robert Murphy, the GSE's director told a Phoenix conference of risk managers. He added that those two factors are the n value.

Elevated appraisals contributed to the housing market collapse because lenders frequ artificially high values on properties, which helped increase home prices.

Murphy's comments followed similar remarks from an official at the Office of the Comp day told conference attendees that banks have been lax in their oversight of appraiser



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TAKING A LOOK AT APPRAISAL QUALITY

BY TONY GARRITANO OCTOBER 23, 2012 MARKET ANALYSIS



You know what they say: quality over quantity. Everyone wants and needs to produce the best quality loan. Well, the appraisal is a big part of that equation. That's why players in the la mode have launched Mercury Network's new Appraisal Quality Management system (AQM). The AQM service, available only on Mercury Network, guides underwriters to address issues in each appraisal with actionable recommendations, and produces investor-ready loan files with the goal of dramatically reducing repurchase risk.

AQM is the result of lengthy collaboration between a la mode and MasterServ Financial and AXIS Appraisal Management Solutions. The system automates first level quality analysis on appraisal reports, provides intelligent underwriting recommendations, deploys a powerful automated revision request system for communicating with appraisers, and automatically packages associated due diligence documents with the loan file for use by investors or auditors. With AQM, risk assessment and investor preparation is transparently integrated with standard collateral valuation workflow.

Essential results are returned along with an overall Appraisal Quality Index (AQI) score compiled from analysis of five intelligently weighted risk categories in the appraisal report, consisting of property risk, market issues, completeness of the appraisal report, accuracy of the findings, and the risk associated with the collateral value. Clients also have clear guidance and individual AQI scores for each of the five factors separately.

AQM leverages the expertise of human underwriters and compliance officers, along with the appraisal

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Visit www.MercuryVMP.com/AQM or call 1-800-434-7260.

Additional resources:



Free resources: Industry best practice guidelines and news
Get expert recommendations for compliance, efficiency, and maximizing profit.
www.mercuryvmp.com/resources/



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