TRID & APPRAISALS

COMPLIANCE STRATEGY

Mercury Network

APPRAISAL FEES

TRID meant sweeping change to disclosures, and many lenders are now examining their approach to quoting appraisal fees on the new Loan Estimate.

Since more than 700 lenders and AMCs rely on Mercury Network's software to power their collateral valuation pipelines, we have tremendous experience with these changes. Here, we've compiled information to guide your TRID compliance strategy as it relates to appraisal fees.

Have feedback? We'd love to hear it. E-mail us at info@MercuryVMP.com.

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ESTIMATING APPRAISAL FEES
TRID compliance challenges

What are you going to put down as the appraisal fee on the new TRID Loan Estimate form?

The TILA-RESPA Integrated Disclosure rule classifies loan-related expenses two ways. One is expenses the borrower is allowed to shop for. Those might change from what you put down on the Loan Estimate form. The other is expenses the borrower can't shop for. Those are fixed, as of the Loan Estimate, which must be provided within three days of application.

Your borrower can't shop for the appraisal. The appraisal fee has to be fixed on the Loan Estimate three days after application.

However, you can't order the appraisal at least until the Loan Estimate has been finalized and disclosed and the borrower has indicated she wants to move forward. All you're allowed to charge for before the borrower agrees to the Loan Estimate is a credit report. The appraisal fee will truly have to be an estimate.

So what are you going to put down as the appraisal fee?

Whatever you put down, you're stuck with.

Theoretically, you could estimate the appraisal high, because costs reflected on a Loan Estimate are allowed to go down without getting you in trouble. That could be problematic for a couple reasons. One, the CFPB has said that a pattern of overestimating costs on the Loan Estimate may be a violation of the rule that you must estimate costs in good faith. (The "good faith" requirement hasn't gone away just because the estimate isn't called that anymore.) Two, you don't want to scare a borrower away with a lot of bloated estimated fees—they'll just take their business elsewhere, to someone who estimates better than you do.

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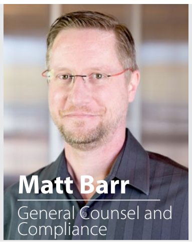

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We don't have to tell you how much appraisal fees can vary. Your average appraiser can offer upwards of forty different products, each priced uniquely. Even if you're sure you're talking about a 1004, complex assignments can raise the cost, as can appraisals on rural properties, appraisals on unique properties, appraisals in areas not covered by a lot of appraisers, appraisals in areas without a lot of recent sales activity, and so on.

According to proprietary Mercury Network data, the median fee charged by appraisers in Maricopa County, Arizona is $425. That means half of appraisals will cost more than that and half less. The average fee is $406.87. You can generally count on spending anywhere from $372 to $441 for a standard 1004 there. So what will you estimate? $425? You'll be low half the time. $441?

> *The vast majority of these factors aren't likely to reveal themselves until after you've had to provide the estimate.*

There are almost exactly the same number of appraisers covering Gwinnett County, outside Atlanta, Georgia as there are covering Maricopa County. But there the median fee is $365. The average is $374.76. You can generally expect to pay between $336 and $413 there. What will you estimate?

What if you don't do enough business in a certain county, or market area, or state, to have reliable historical appraisal fees to look at? To arrive at our data, we looked at more than a thousand Gwinnett County appraisal transactions over a year's time, and almost four thousand Maricopa County appraisal transactions. Do you have enough historical data in an area to reliably estimate?

And what if you do? Geography. Coverage. Mileage. Recent sales activity. There are dozens of factors that influence how much an appraisal report will cost, factors that can turn what was a plain vanilla 1004 into something more complex. Factors which aren't likely to reveal themselves until after you've had to provide an estimate. With the new Loan Estimate form, you simply aren't going to be able to take all of these factors into account in the three days after an application.

What does the CFPB expect you to do about it? Find out your costs in advance. "Two national consumer advocacy group commenters asserted that the final rule should require the creditor to… obtain pricing information [in advance] from third-party vendors with which the creditor frequently works," the CFPB said in its commentary to the final rules. "The Bureau believes the…rules…incentivize

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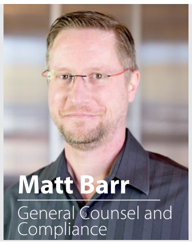

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creditors to" do just that. Do you need to obtain commitments from your vendors on pricing well in advance? If so, is it as simple as that?

Trying to nail down advance pricing is liable to start a tug-of-war between your AMC and its appraisers over who gets saddled with any overage on a particular property. All the rules make clear is that it's not the borrower who will have to bear that burden.

Say you estimate $500 for an appraisal fee. Your AMC agrees to the $500 charge. After the appraisal is ordered, you find out the property is complex and the appraiser will charge the AMC $650.

Who loses out? Not the borrower. The appraisal fee the borrower pays cannot exceed $500, once it's been included on the Loan Estimate. Will the AMC hold firm and only pay the appraiser the estimated $500? If so, will the appraisal get done, or at least get done on time? Will the AMC have to eat the extra $150, paying the appraiser his $650 and then receiving only the estimated $500 from the borrower? How many times can your AMC do that before they start getting shy about advance pricing commitments?

Another problem with obtaining pricing in advance: Which AMC's fee is your broker going to estimate? Under appraiser independence rules, your broker can't choose from among the AMCs you use. If you contract with appraisers directly, the broker can't choose from among them, either. Guidance on estimated appraisal fees is going to have to come from somewhere other than the production pipeline.

The TRID rules are meant to make costs more transparent and a complicated process easier. They do just that, when it comes to borrowers. But life for lenders who order appraisals is about to get a lot murkier, and more complicated. disclosure. Constantly building in "cushions" to the appraisal fee might run afoul of the spirit of the disclosure requirements, in the opinion of your regulator.

Remember, too, that your Loan Estimate is a marketing document as much as it's anything else. If you throw a Hail Mary each time you disclose the appraisal fee and put down, say, $750, your competition down the street might be able to pin the same appraisal down at $600 or less because they have better data

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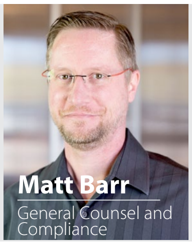

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and better relationships. Here, data will be worth its weight in gold. A company that estimates lower fees and can deliver at the estimated prices will be more attractive to more potential borrowers.

The TRID rules are meant to make costs more transparent and a complicated process easier. They do just that, when it comes to borrowers. But life for lenders who order appraisals is about to get more complicated. And more interesting.

How are you approaching the new rules?

Let us know at info@MercuryVMP.com.

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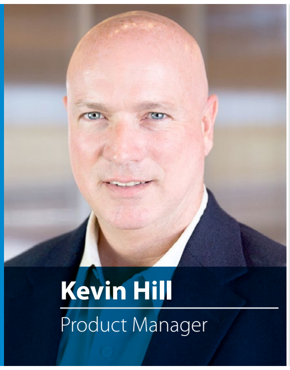

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Automation options
TRID: APPRAISAL FEE ESTIMATES

Automation options for appraisal fee estimates

More than 700 lenders and AMCs use our software to help power their collateral valuation pipelines, so we received dozens of suggestions for features that would help them automate TRID compliance. We put it all in high gear to beat the TRID deadline and released several customization options to assist you with estimating appraisal fees on your Loan Estimates.

Set global appraisal fees: We've added the ability to set a global fee for specific products. These fees become the default fee anytime the product is ordered, which eliminates the need to manage fees per-appraiser.

Products	My Product Fee
Uniform Residential Appraisal (FNMA 1004)	*$450*
Uniform Residential Appraisal w/ REO (FNMA 1004)	*Click to enter fee...*
FHA Appraisal (FNMA 1004)	*$500*
Single Family Investment (1004, 1007, and 216)	*$400*
Single Family FHA Investment (1004, 1007, and 216)	$750

In your Product Requirements dashboard, easily set default fees for each product.

Automatically calculate default fees to appraisers: Clients using our websites for appraisal ordering can now calculate the default fee shown to your appraisers as a percentage of the website's published fee. When the order goes to the appraiser, the fee offer will be an automatically-calculated percentage of your published fee.

Vendor fee options:

Use [VMP XSite fee] when assigning orders

☑ Use vendor override fee whenever possible

Apply [80] % of the VMP XSite fee as the vendor's fee.

Set the payment method to [Check] when orders are automatically assigned.

Set your published fees on your website and automatically calculate fees payable to the appraiser based on percentages.

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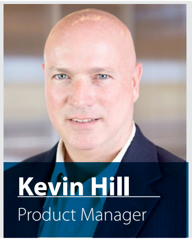

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Automation options for appraisal fee estimates, continued

Automatically transfer your fee: Instead of using the appraiser's published fee, you can customize your account to automatically transfer your fee to the appraiser's order. Your fee will be what the appraiser sees when accepting the assignment.

Customize all these options for your client groups: All of these tools can be customized on a per-client basis, so you can automatically handle appraisal fees to suit your client's specific requirements.

Need help customizing your account?

We're here to help. Click "Contact Support" inside Mercury Network or call your Client Relations team at 1-888-794-0455.

Coming soon: FeeRocket integration

Many clients have requested an integration to FeeRocket, a new service of Zaio to help estimate appraisal fees with robust analytics, instantly. This is scheduled for release soon. Visit www.FeeRocket.com for more info.

Have ideas? Let us know.

As always, these updates are a direct result of the suggestions of our customers. Please keep them coming at info@MercuryVMP.com.

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

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