



Fannie Mae®

Beyond the Guide

Section 5

Collateral Risk Assessment for
Prefunding and Post-Closing QC

Section 5

Collateral Risk Assessment for Prefunding and Post-Closing QC

Selling Guide D1-3-04

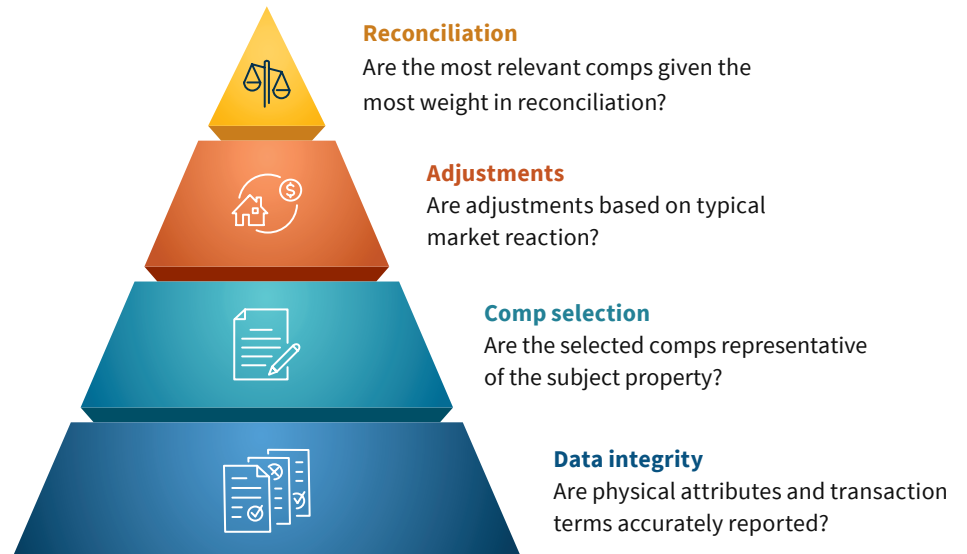
Focusing primarily on credit aspects of loan files and minimizing appraisal reviews can result in a significant loan quality gap.

When looking at industry collateral QC processes and the results of lender reviews, there is a significant difference between how many in the industry perform collateral quality control and Fannie Mae’s view of collateral quality risk. Acceptable and adequate collateral is a critical element of a quality loan. Accordingly, the appraisal/collateral assessment is a critical component of QC reviews.

The appraisal/collateral assessment has three objectives:

- 1 Ensure the data in the appraisal report is accurate.
- 2 Confirm the property value is supported.
- 3 Address any Collateral Underwriter® (CU®) or other collateral tool flags and messages.

An appraisal review can be broken into four components:



The **Components of Appraisal QC** pyramid shows that all of the other components rest on data integrity. Since data integrity is the foundation of the appraisal, much of the collateral assessment should focus on validating the appraisal data.



Data integrity

- Is the subject property described accurately, (is it the right property) and does it meet the loan eligibility requirements?
- Inaccurate data on the subject or comparable sales can result in significant errors in adjustments or the final reconciliation of value.

Comparable selection

- The market approach studies recent sales of similar assets, adjusting for the differences between them.
- A market approach is only reliable if the most representative comparable sales are used in the analysis. It is important to see if the appraiser has done this and supported their selections.

Adjustments

- Assuming data integrity and comparable selection are spot-on, there are likely differences between the subject and the comps. This means the appraiser needs to make “market based” adjustments to the comparables selected, to reflect how a typical buyer would react to the difference. Measuring market reaction has always been a core responsibility of appraisers.
- The quality of the adjustment component is critical because if the appraiser provides accurate data (data integrity) and uses the most relevant comps (comparable selection), they can still have an unsupported appraised value if they don't make accurate, market-based adjustments.

Reconciliation

- All three of the other components can be on track but still result in an unsupported value if emphasis or weight is placed on the least similar sale. Appraisers must consider all completed analysis accurately by weighing the most relevant comparable sales to properly support value.

Performing this review requires reliable sources to validate the data provided in the appraisal. To assist lenders in performing a comprehensive review of data elements in the origination appraisal, Fannie Mae provides Form 1033. Although lenders are not required to use Form 1033 in their reviews, it can serve as a framework for validating the underlying data elements that are used to determine value.

To assist lenders in performing a comprehensive review of data elements in the origination appraisal, Fannie Mae provides Form 1033. Although lenders are not required to use Form 1033 in their reviews, it can serve as a framework for validating the underlying data elements that are used to determine value.



The table below provides some of the tools currently available to assist lender reviews:

Source	Description
CU web application	<i>If you are not currently using CU in your operations and quality control functions, you are at a competitive disadvantage.</i> It's highly recommended that lenders leverage the CU web application in both the manufacturing process and QC. CU issues a collateral risk score that can be used to focus on higher risk appraisals, enabling users to identify appraisals with a heightened risk of property eligibility or policy violations, overvaluation, or appraisal quality issues. Lenders with strong collateral risk control processes take full advantage of CU and the insights to data accuracy and value determination that it provides both in operations and QC. Refer to the Collateral Underwriter Learning Center for videos and more information about leveraging CU's powerful capabilities to simplify your collateral underwriting and quality control tasks.
Submission Summary Report (SSR)	For lenders without access to CU on correspondent loans, the SSR provides a summary of score, flags, and messages that can highlight potential quality issues. This is actionable information. All appraisals successfully uploaded to the Uniform Collateral Data Portal® (UCDP®) receive an SSR for each government-sponsored enterprise (GSE) submission. The SSR contains a summary of the appraisal submission(s) for each loan, the status of the submission(s), and a Document File Identifier (Doc File ID), which is part of the unique appraisal identifier generated by UCDP. One Doc File ID is assigned per loan and is the same for delivery to either GSE.
MLS (multiple listing service) listings	MLS listings provide detail on most real estate transactions and are used by the appraiser to select comparables and obtain property data on the subject and comparables.
Public records	Most states, counties, and municipalities provide access to real estate property information (deeds, plats, legal descriptions, tax assessments) online. Data may include general information or access to copies of deeds and surveys. Information is often free.
Real estate websites	These websites provide visibility to properties that are currently for sale or have been listed and/or sold recently – sometimes as far back as one to two years. In many cases, exterior and interior photos are available, which provide insight to condition and quality ratings assigned by the appraiser.
Fraud screening tools	Some third-party fraud reports include appraisal data.
Appraisal review vendors	Multiple vendors provide traditional value-focused reviews such as desk reviews, broker-price opinions, and field reviews. Keep in mind that regardless of review tools used, lenders are responsible for compliance with Fannie Mae's collateral risk review requirements.

By leveraging these sources in conjunction with a comprehensive review process, QC auditors can perform meaningful appraisal reviews.

Some lenders have staff appraisers to perform these reviews, but even without a licensed or certified appraiser, using a data validation approach can manage risk effectively. Conducting a complete review of the data and elements of the appraisal can still control for most collateral risk.

Appraisal defects, like credit defects, should have areas of responsibility (AOR) within the lender's organization. The AOR can be a staff appraiser, another internal team member, or both.

Aggregating appraisal defects by AOR provides insight to appraisers with chronic data integrity issues. This data can guide lenders to manage their appraisal management companies or panel of appraisers using data, which helps drive constructive discussions and improvement.



If you're enhancing your appraisal reviews or starting an appraisal review program from the ground up, here are some best practices to consider:

- Understand the significance when validating data elements in the appraisal. When errors exist, critically evaluate the impact of a particular data error on the overall value.
- Review your Fannie Mae appraisal quality defects and calibrate to your own review process to understand what creates disparate results.
- Develop an appraisal quality scorecard based on appraisal quality feedback from Fannie Mae and your own QC findings to help identify specific trends or gaps, and develop training opportunities or process improvements.
- Align your QC review with Fannie Mae's process; ensure your QC staff is trained to effectively apply available appraisal tools, including CU. Leverage Fannie Mae's CU training.
- Include the CU risk score with the appraisal quality defects in your QC reports to gain additional insight into the possible root causes of quality errors.
- Use Fannie Mae's appraisal quality feedback to target loans with potential appraisal quality concerns, such as those with high CU risk scores (2.6 - 5). Feedback sources include SSRs on appraisal uploads to the UCDP, reports in Fannie Mae Connect™, and the workflow function in CU.
- Target higher loan-to-value ratio loans in prefunding selections because potential defects could cause a negative impact to the property value and are more likely to result in an ineligible loan.
- Use prefunding samples to target loans with high CU risk scores and appraisal quality flags.
- Ensure the collateral risk assessment performed on the loans in your random post-closing sample addresses the key requirements described in the *Selling Guide*.
- Leverage Fannie Mae tools, post-acquisition loan review results, and all other available data to produce loans with the highest appraisal quality possible.
- Use the optional Post-Closing QC Collateral Risk Assessment Analysis (Form 1033) as part of your appraisal QC process.

Having a robust and holistic appraisal review program in place, in both originations and prefunding/post-closing QC, can better position your company to effectively manage appraisal quality regardless of market conditions.

Resources

[Post-Closing QC Collateral Risk Assessment Analysis \(Form 1033\)](#)

[Selling Guide D1-3-04](#)

[Collateral Underwriter Learning Center](#)