How to use Overvaluation and Undervaluation Risk Flags in Collateral Underwriter® (CU®)

Fannie Mae® | Collateral Underwriter®

June 2022

Fannie Mae®

© 2022 Fannie Mae

Table of Contents

General Information	**Page 3**
Case Studies	**Page 7**
Undervaluation: Resolved by review	**Page 8**
Undervaluation: Validated by review	**Page 14**
Overvaluation: Validated by review	**Page 21**
Overvaluation: Resolved by review	**Page 27**

If You Get a CU Overvaluation or Undervaluation Risk Flag…

- What does it mean?
- How do you research?
- How do you work with the appraiser to resolve possible issues?

General Information

CU allows users to segment appraisals by risk profile, facilitating efficient workflow management and resource allocation.

CU also helps users reduce time spent on appraisal review, leading to fewer, but better-informed, requests to appraisers.

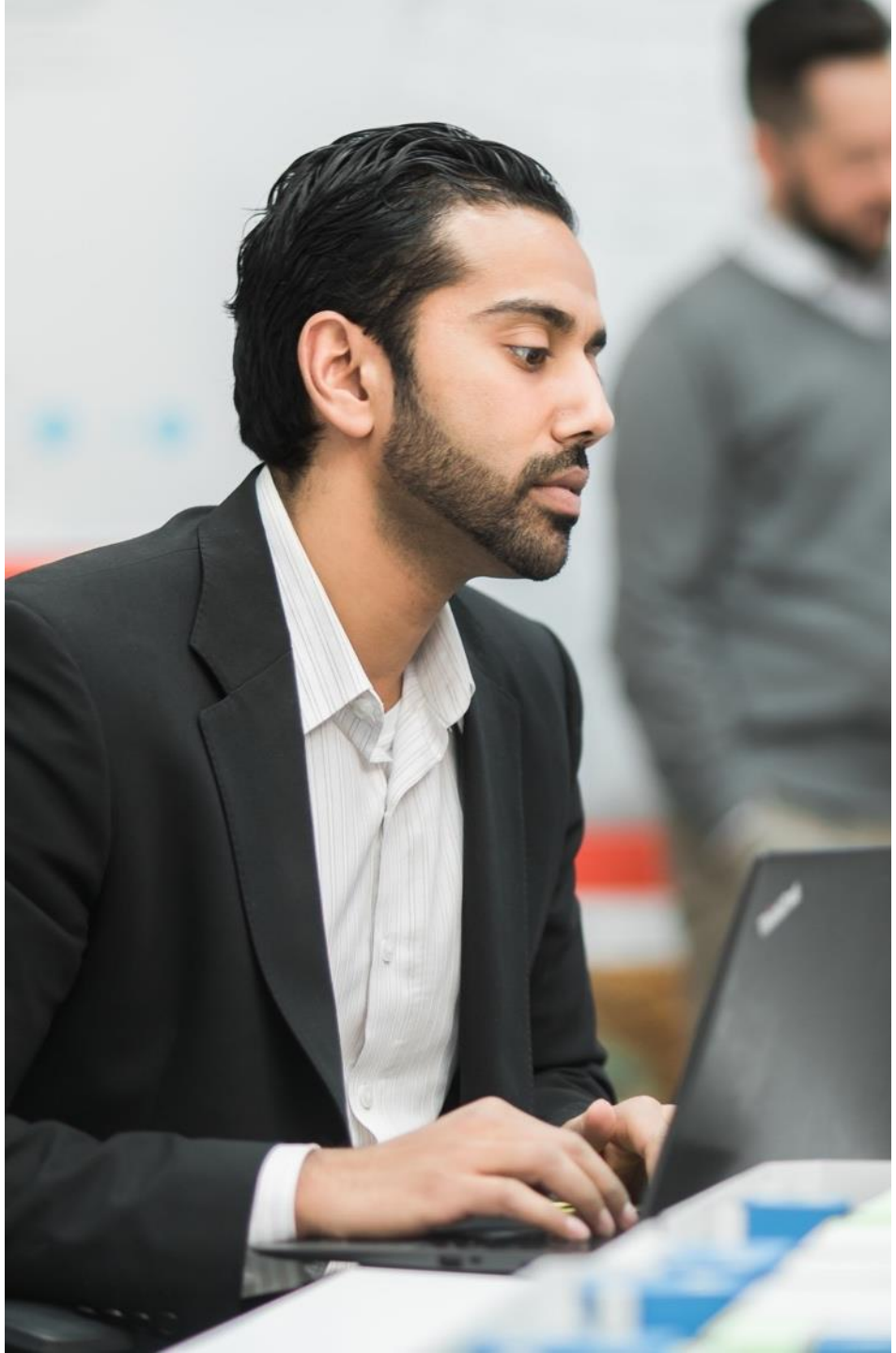
The dynamic and interactive functionality in CU provides access to comparable sales data, mapping with aerial imagery, market trends, public records, local market conditions, and more – all in one free application.

Appraisal feedback at the point of submission enables users to proactively address potential issues and improve the overall quality of loans delivered to Fannie Mae.

General Information (cont.)

Important points for using CU successfully

- Users must understand the limitations of automated analysis and be aware of potential property or neighborhood nuances.
- CU is effectively predictive of appraisal defects, but **not all influences on value can be modeled**.
- Well-informed human judgment should take precedence over automated results.
- Users are not expected to utilize the full CU functionality and information available in the CU user interface on every appraisal.



Considerations for Lenders

- ✓ Fannie Mae expects users to practice human due diligence in combination with the CU findings and will actively follow up with users who ask appraisers to change their reports based on CU findings without any further due diligence by the user.
- ✓ Fannie Mae encourages users to carefully review the appraisal report, including all commentary, before seeking clarification from the appraiser.
- ✓ Taking messages or alternative sales at face value and simply asking your appraiser to address them is neither effective nor efficient.
- ✓ After completing a thorough review, users should be able to have constructive dialogue with appraisers if needed to resolve specific appraisal questions or concerns.

Undervaluation and Overvaluation Risk Flag Examples

Whenever the overvaluation or undervaluation risk flag is present, a single reason code representing the strongest statistical correlation to the overvaluation or undervaluation risk will also be displayed.

These reason codes point users to potential root causes.

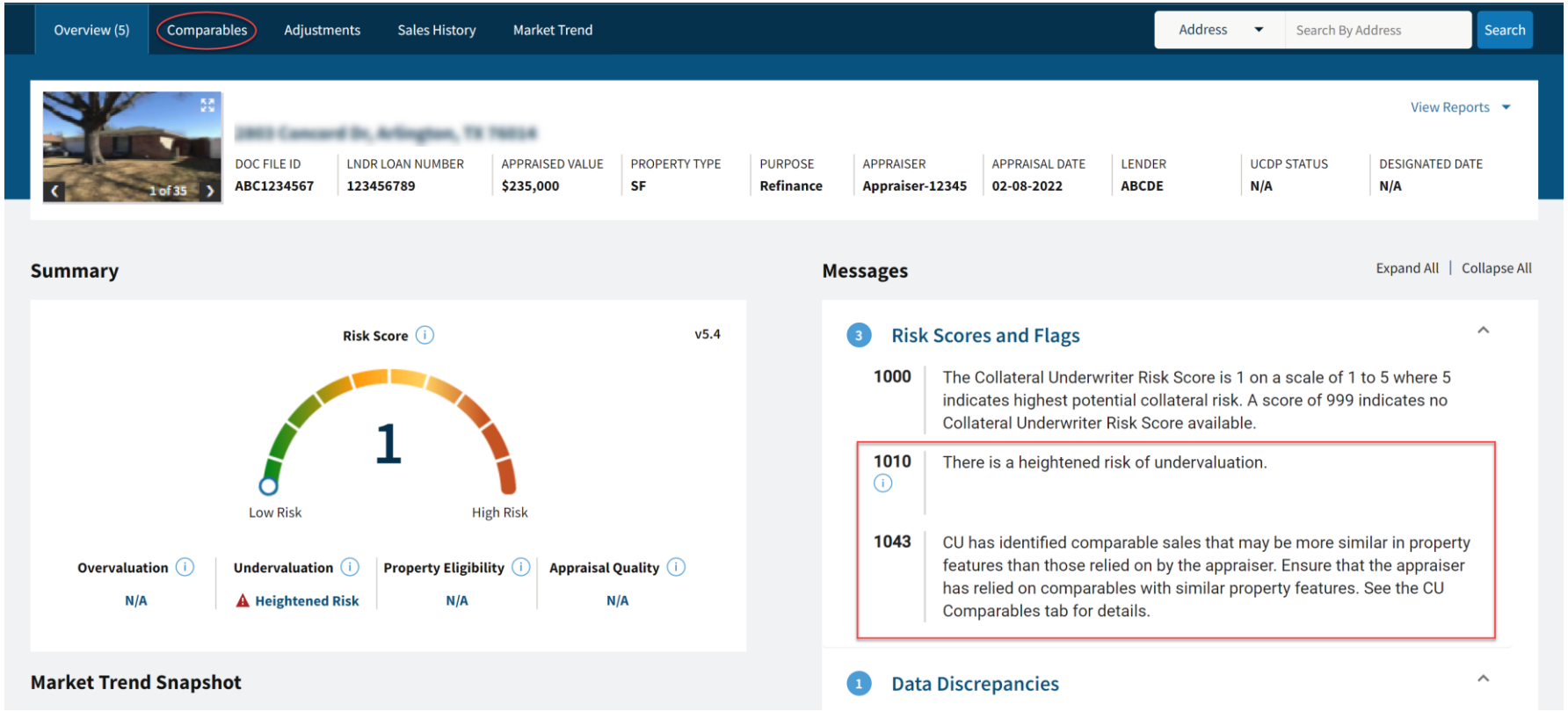
The various CU tools can be used to validate or dismiss potential concerns.

In the following slides, we show you some examples of appraisals in CU where the undervaluation or overvaluation risk flag is present, and how to determine if further action is needed.

Example 1: Resolved by Review

Undervaluation Risk Flag

In this example, the undervaluation reason code 1043 states "CU has identified comparable sales that may be more similar in property features than those relied on by the appraiser. Ensure that the appraiser has relied on comparables with similar property features. See the CU Comparables tab for details."



The data table on the comparables tab can help users identify why CU has identified a risk of undervaluation.

In this case, the appraised value of $235,000 is significantly lower than the indicated value of the highest ranked alternative/model comparables which range from $263-$297k.

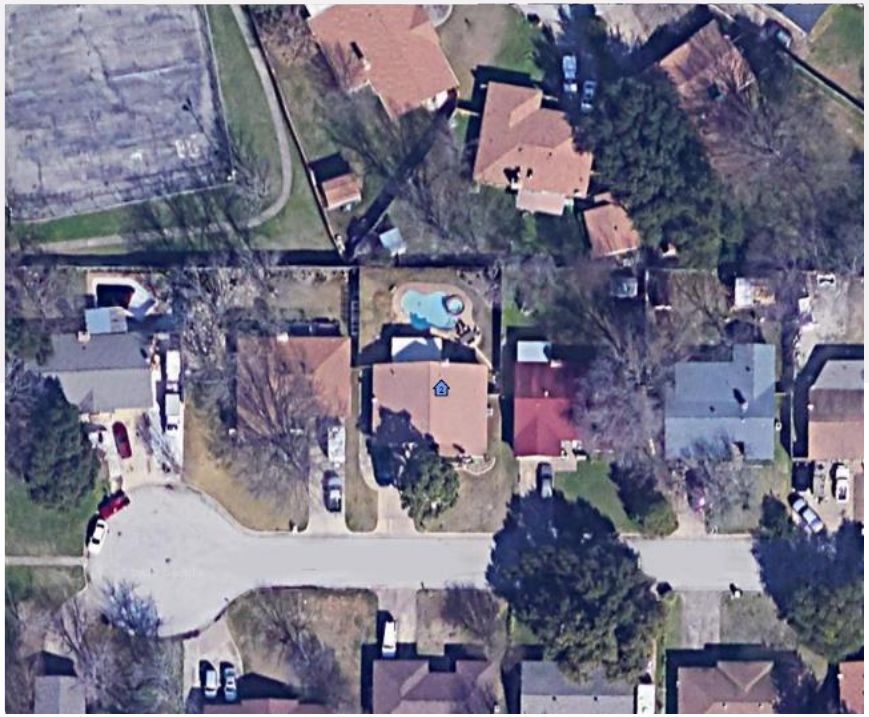
Before you make your decision if you agree or disagree with this finding, take a closer look to make sure the highest rated comps are described accurately or if they have attributes valued by the market but not standardized by the Uniform Appraisal Dataset (UAD).

On the following slides, we will show you how you can use the map functionality in the CU web application to quickly and efficiently investigate the validity of the CU finding.

Edit	Adjst	Prop	Rank	Address	Dist	Cond	Qual	Gla	Lot	Type	Age	Bds	Bths	Bs Tot	Bs Fin	Attch	Prk	Lev	Traff	Vw	Loc	Date	Amount	Appr Adjst	Mdl Adjst
			--	[redacted]	--	C3	Q4	1508	8400	AL	49	3	2	--	--	DT	2	1	2	N	N	02-08-2022	$235,000	$235,000	--
		1	1	[redacted]	0.08	C3	Q4	1528	6600	AL	52	3	2	--	--	DT	2	1	2	N	N	12-31-2021	$240,000	$241,000	$263,511
			2	[redacted]	0.10	C3	Q4	1470	7841	AL	50	3	2	--	--	DT	2	1	1	N	N	11-30-2021	$268,500		$297,271
			3	[redacted]	0.29	C3	Q4	1660	7405	AL	44	3	2	--	--	DT	2	1	2	N	N	01-31-2022	$275,000		$264,874
			4	[redacted]	0.25	C3	Q4	1630	9148	AL	54	4	2	--	--	DT	2	2	2	N	N	01-31-2022	$275,000		$279,972
			5	[redacted]	0.09	C3	Q4	1530	7841	AL	51	4	2	--	--	DT	2	1	2	N	N	07-31-2021	$250,000		$287,836
			6	[redacted]	0.05	C3	Q4	1380	9583	AL	51	3	2	--	--	DT	2	1	2	N	N	07-31-2021	$250,000		$294,912
			7	[redacted]	0.46	C3	Q4	1430	7841	AL	49	3	2	--	--	DT	2	1	2	N	N	12-31-2021	$262,000		$292,403

Using the embedded Google map, we can zoom in on the model comps to see if they have any non-UAD attributes. This reveals that model comp 2 and 6 have inground pools, and we know the subject property does not.

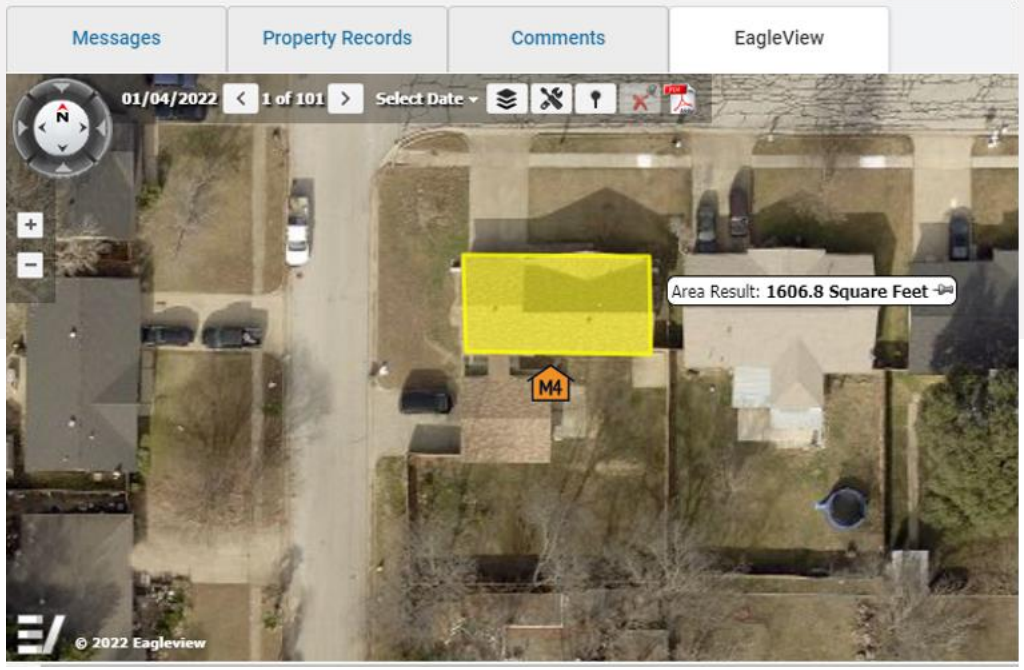
CU does not back out the contributory value of pools from its adjusted comparable sale prices, so the value indications from these comps ($294k and $297k) are too high.

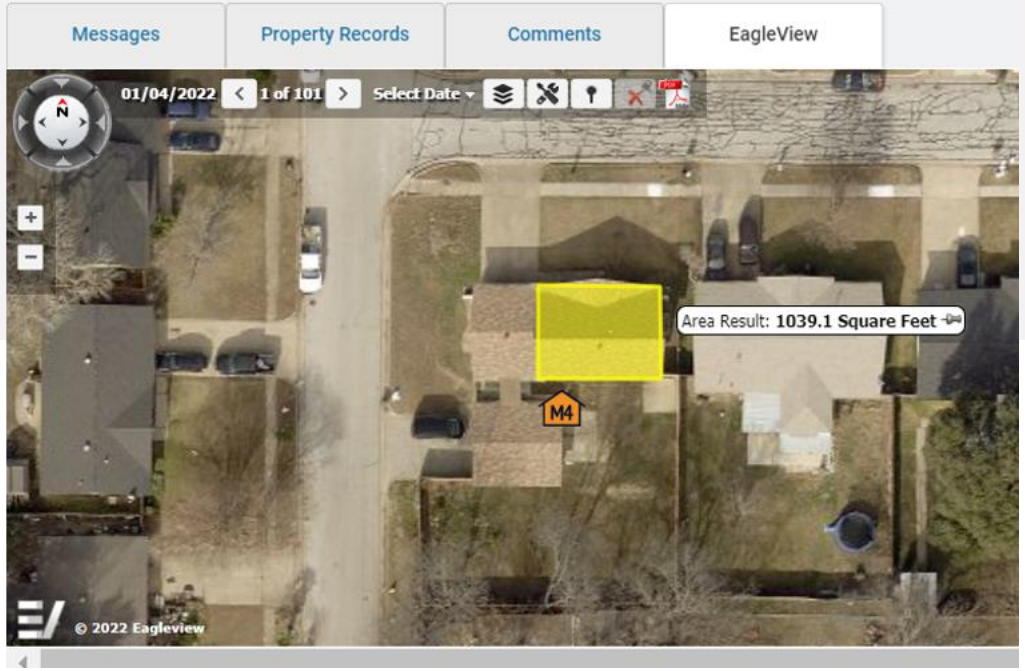


Using Google street-level maps, it was observed that Model Comp 4 has a garage conversion, second story, and a detached garage, suggesting the square footage in CU (1,630 sf) is not accurate - it is likely significantly larger.

We can quickly spot-check the estimated square footage using the “EagleView” tool in CU. This tool enables users to measure areas. In this case, we can conclude that the GLA provided should actually be much larger since it does not include the garage conversion or the second level of the property. This inaccuracy inflates the indicated value.

Using Eagleview we can estimate that the bottom floor at 1,600 SF and the second floor at 1,000 SF, resulting in approximately 2,600 SF, adding 970 SF to the reported GLA. Adding an additional downward adjustment at $50 per SF ($50 x 970=$48,500) puts the indicated value of this comparable within $5,000 of the appraised value.





Summary

Unmodeled influences

After investigating the undervaluation risk flag using the tools in CU, the reviewer can see that three of the highest-rated comparable sales identified by CU had features or inaccuracies which were unknown to the CU model. Careful analysis of the other comparable sales revealed similar issues showing that the appraiser's value of $235k is within a reasonable range.

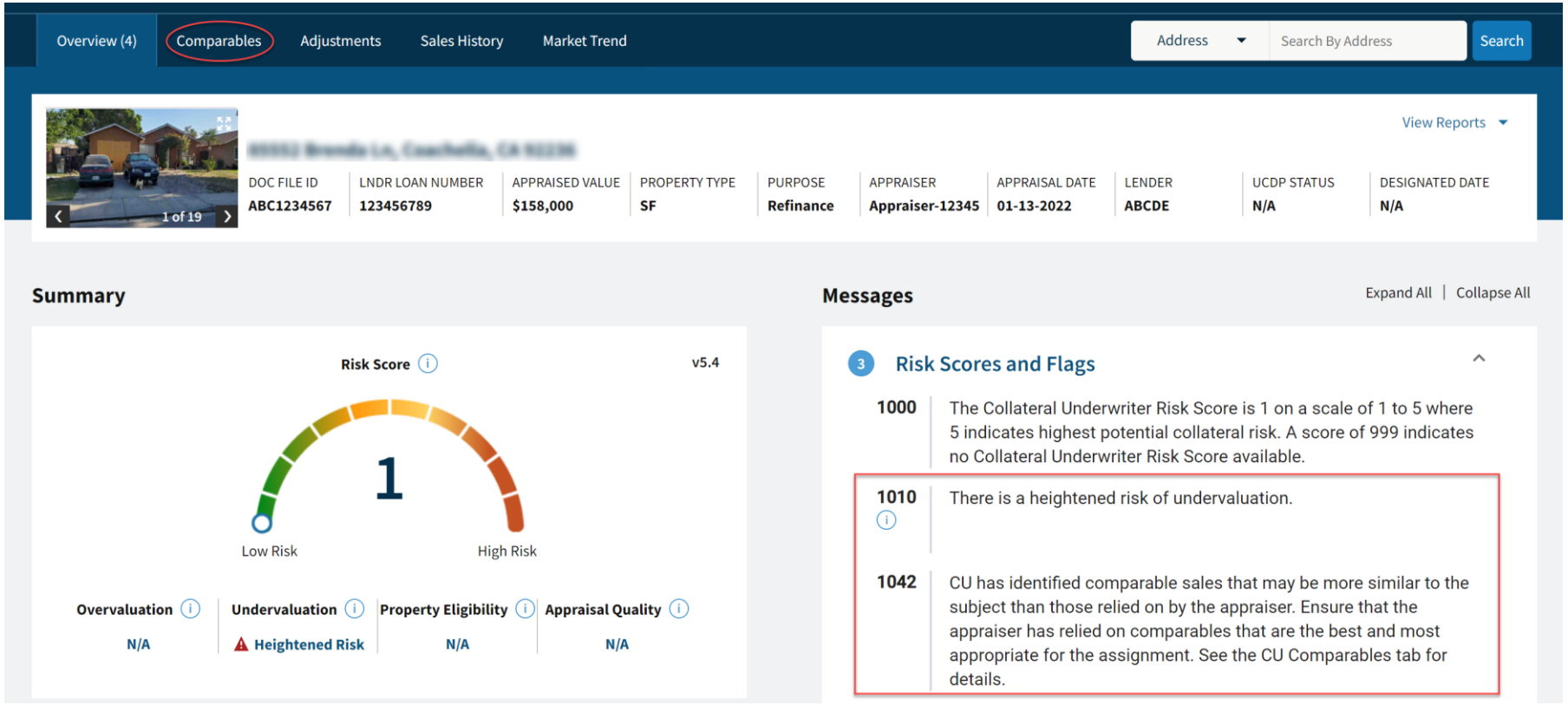
This is an example of why it is necessary to validate the CU findings. Issues like these can lead to unsupported model results.

In this example, the review results provide a resolution to the undervaluation risk concern – no follow up with the appraiser is needed.

Example 2: Validated by Review

Undervaluation Risk Flag

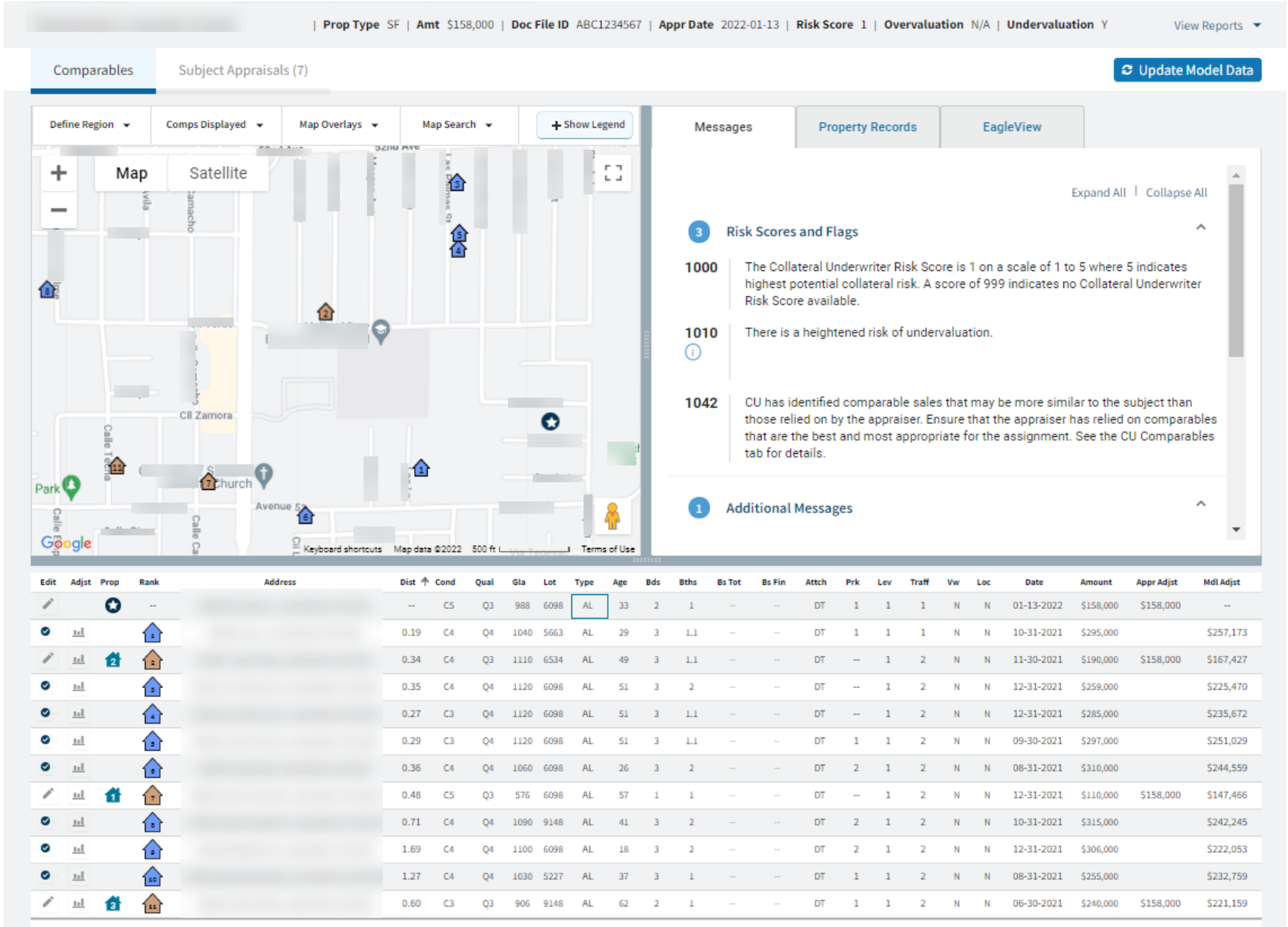
In this example, the undervaluation reason code 1042 states "CU has identified comparable sales that may be more similar to the subject than those relied on by the appraiser. Ensure that the appraiser has relied on comparables that are the best and most appropriate for the assignment. See the CU Comparables tab for details."



As noted in the message, CU users can get more information with the map and data table in the “Comparables” tab, shown to the right. Let’s start with the map.

Legend:

- Subject Property
- Single-Family Model & Appraisal Comp
- Single-Family Model Comp



Edit	Adjst	Prop	Rank	Address	Dist	Cond	Qual	Gla	Lot	Type	Age	Bds	Bths	Bs Tot	Bs Fin	Attch	Prk	Lev	Traff	Vw	Loc	Date	Amount	Appr Adjst	Mdl Adjst
			--		--	C5	Q3	988	6098	AL	33	2	1	--	--	DT	1	1	1	N	N	01-13-2022	$158,000	$158,000	--
			1		0.19	C4	Q4	1040	5663	AL	29	3	1.1	--	--	DT	1	1	1	N	N	10-31-2021	$295,000		$257,173
		2	2		0.34	C4	Q3	1110	6534	AL	49	3	1.1	--	--	DT	--	1	2	N	N	11-30-2021	$190,000	$158,000	$167,427
			3		0.35	C4	Q4	1120	6098	AL	51	3	2	--	--	DT	--	1	2	N	N	12-31-2021	$259,000		$225,470
			4		0.27	C3	Q4	1120	6098	AL	51	3	1.1	--	--	DT	--	1	2	N	N	12-31-2021	$285,000		$235,672
			5		0.29	C3	Q4	1120	6098	AL	51	3	1.1	--	--	DT	1	1	2	N	N	09-30-2021	$297,000		$251,029
			6		0.36	C4	Q4	1060	6098	AL	26	3	2	--	--	DT	2	1	2	N	N	08-31-2021	$310,000		$244,559
		1	7		0.48	C5	Q3	576	6098	AL	57	1	1	--	--	DT	--	1	2	N	N	12-31-2021	$110,000	$158,000	$147,466
			8		0.71	C4	Q4	1090	9148	AL	41	3	2	--	--	DT	2	1	2	N	N	10-31-2021	$315,000		$242,245
			9		1.69	C4	Q4	1100	6098	AL	18	3	2	--	--	DT	2	1	2	N	N	12-31-2021	$306,000		$222,053
			10		1.27	C4	Q4	1030	5227	AL	37	3	1	--	--	DT	1	1	2	N	N	08-31-2021	$255,000		$232,759
		3	11		0.60	C3	Q3	906	9148	AL	62	2	1	--	--	DT	1	1	2	N	N	06-30-2021	$240,000	$158,000	$221,159

The subject is on a cul-de-sac street in a homogeneous residential neighborhood, however, comparable sales used in the appraisal are geographically different from the subject.

One is adjacent to a busy road and non-residential property.

The other two are located across a busy road in an area where properties appear to be more varied (based on the roof lines and apparent lot sizes) than properties located in the subject and model comparable areas.

Legend:

- Subject Property
- Single-Family Model & Appraisal Comp
- Single-Family Model Comp

A Closer Look

Notice how properties in this area vary quite a lot in lot size and house size (based on the satellite view). Model comparables appear to be more homogenous in the aerial view.

The photo to the left is a street-level view of the subject property. The photo to the right is a view of the front of one of the comparable sales provided by the appraiser, which is almost half the size, **lacks a garage, and is inferior** in construction and appeal.

Why did the appraiser use a comparable sale that is so significantly different from the subject when there were alternative sales that were more similar?

Subject

Appraisal Comparable Sale

CU contains MLS photos that can be used to validate quality and condition ratings. The appraiser rated the subject condition as C5 but, based on photos (see kitchen below for example), a higher rating is warranted. The appraiser made a $37k downward adjustment to the comparable, but side by side comparison of the photos in CU shows that the two are equal condition and no adjustment is warranted. Inaccurate condition ratings resulted in inappropriate condition adjustments for all comparables used in the report, supporting the risk of undervaluation.

Appraisal Comparable Sale

Subject

Summary

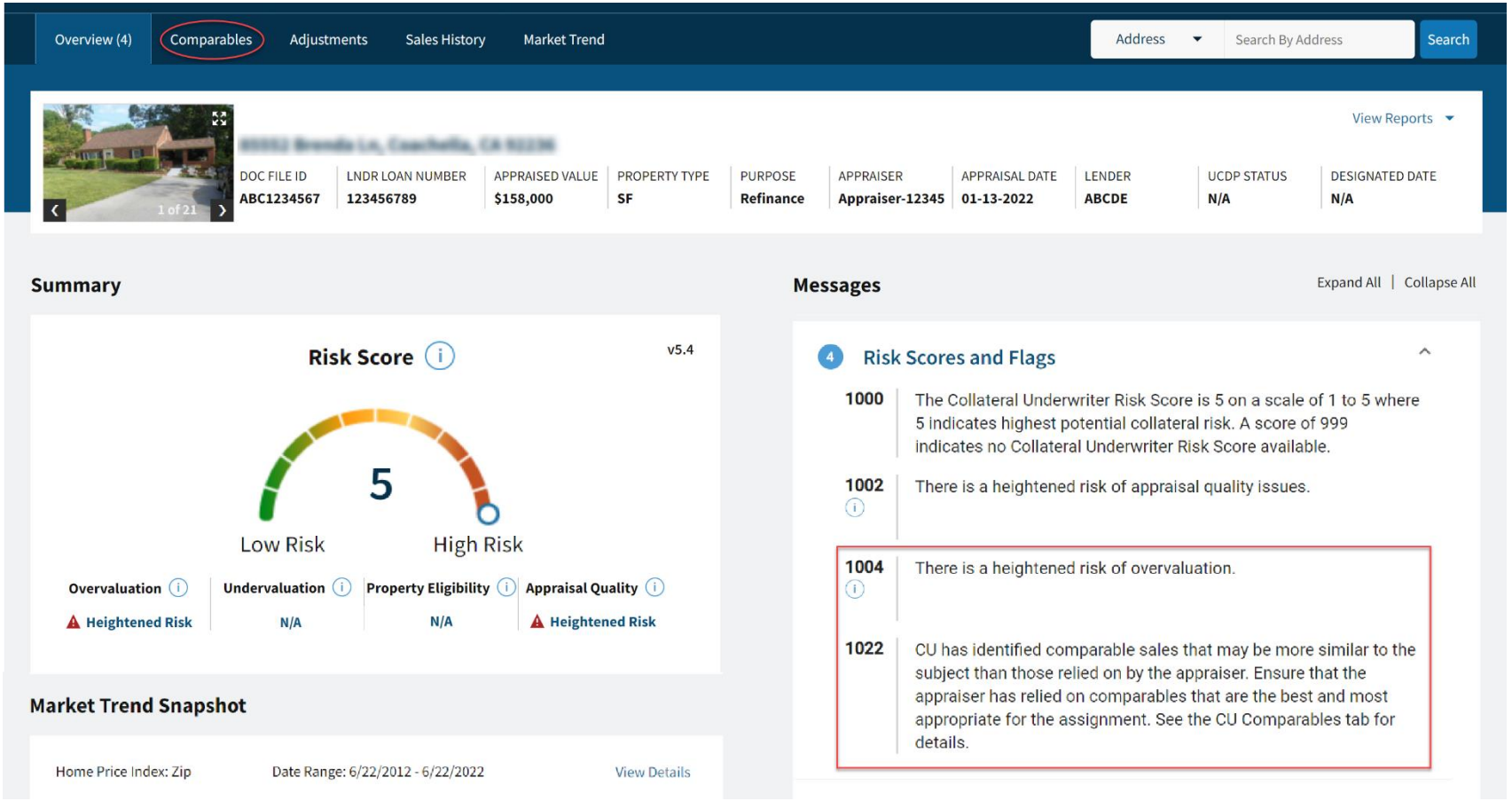
Review confirms there is a valid undervaluation concern.

After investigating the undervaluation risk flag using the tools in CU, the reviewer should now reach out to the appraiser to seek answers to the questions raised which suggest the subject property was undervalued.

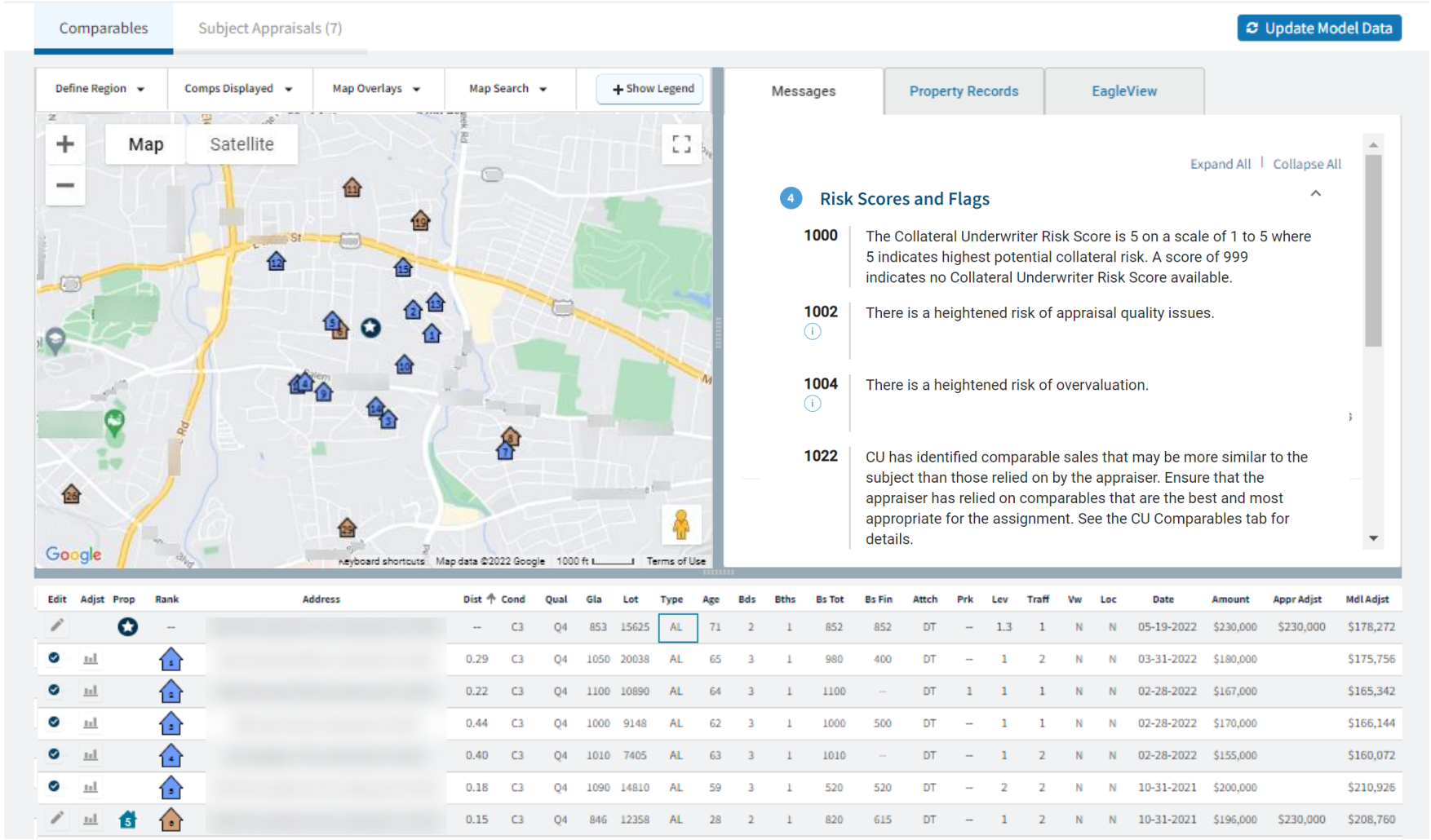
Example 3: Validated by Review

Overvaluation Risk Flag

In this example, CU has an overvaluation flag along with the reason code 1022 which states "CU has identified comparable sales that may be more similar in property features than those relied on by the appraiser. Ensure that the appraiser has relied on comparables with similar property features. See the CU Comparables tab for details."



As we have seen in previous examples, the Comparables tab is often the best place to begin the review. Let's start with the data table.



Edit	Adjst	Prop	Rank	Address	Dist	Cond	Qual	Gla	Lot	Type	Age	Bds	Bths	Bs Tot	Bs Fin	Attch	Prk	Lev	Traff	Vw	Loc	Date	Amount	Appr Adjst	Mdl Adjst
			--		--	C3	Q4	853	15625	AL	71	2	1	852	852	DT	--	1.3	1	N	N	05-19-2022	$230,000	$230,000	$178,272
			1		0.29	C3	Q4	1050	20038	AL	65	3	1	980	400	DT	--	1	2	N	N	03-31-2022	$180,000		$175,756
			2		0.22	C3	Q4	1100	10890	AL	64	3	1	1100	--	DT	1	1	1	N	N	02-28-2022	$167,000		$165,342
			3		0.44	C3	Q4	1000	9148	AL	62	3	1	1000	500	DT	--	1	1	N	N	02-28-2022	$170,000		$166,144
			4		0.40	C3	Q4	1010	7405	AL	63	3	1	1010	--	DT	--	1	2	N	N	02-28-2022	$155,000		$160,072
			5		0.18	C3	Q4	1090	14810	AL	59	3	1	520	520	DT	--	2	2	N	N	10-31-2021	$200,000		$210,926
		5	6		0.15	C3	Q4	846	12358	AL	28	2	1	820	615	DT	--	1	2	N	N	10-31-2021	$196,000	$230,000	$208,760

Legend:

- Subject Property
- Single-Family Model & Appraisal Comp
- Single-Family Model Comp

The data table on the comparables tab can help users identify why CU has identified a risk of overvaluation.

In this case, the appraised value of $230,000 is significantly higher than the indicated value of the highest ranked alternative/model comparables which range from $160-$211k.

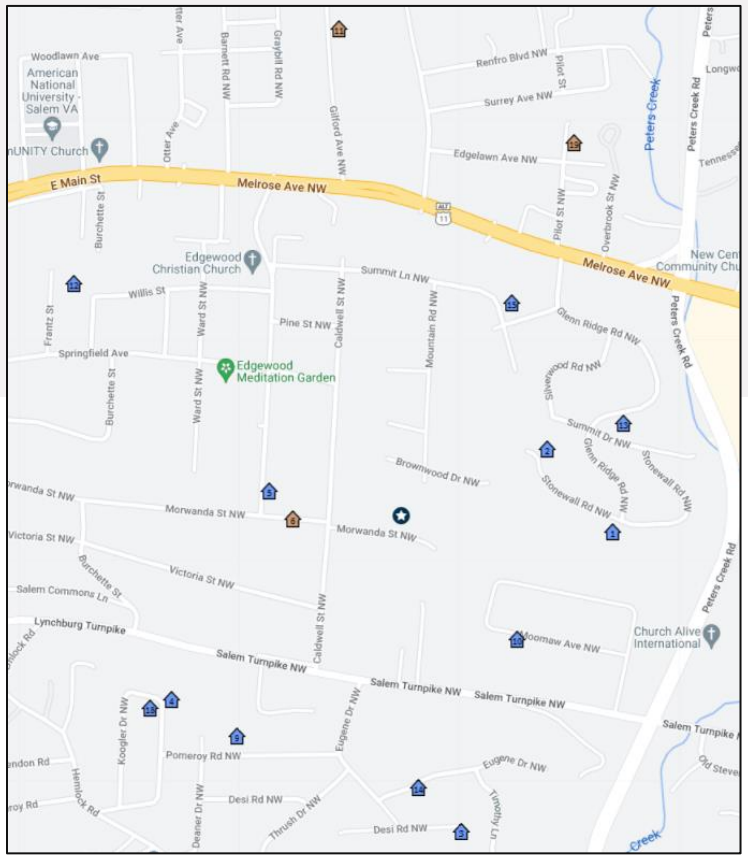
Before you make your decision if you agree or disagree with this finding, take a closer look to make sure the highest rated comps are described accurately or if they have attributes valued by the market but not standardized by UAD.

On the following slides, we will show you how you can use the map functionality in the CU web application to quickly and efficiently investigate the validity of the CU finding.

Edit	Adjst	Prop	Rank	Address	Dist	Cond	Qual	Gla	Lot	Type	Age	Bds	Bths	Bs Tot	Bs Fin	Attch	Prk	Lev	Traff	Vw	Loc	Date	Amount	Appr Adjst	Mdl Adjst
			--	[redacted]	--	C3	Q4	853	15625	AL	71	2	1	852	852	DT	--	1.3	1	N	N	05-19-2022	$230,000	$230,000	--
			1	[redacted]	0.29	C3	Q4	1050	20038	AL	65	3	1	980	400	DT	--	1	2	N	N	03-31-2022	$180,000		$175,756
			2	[redacted]	0.22	C3	Q4	1100	10890	AL	64	3	1	1100	--	DT	1	1	1	N	N	02-28-2022	$167,000		$165,342
			3	[redacted]	0.44	C3	Q4	1000	9148	AL	62	3	1	1000	500	DT	--	1	1	N	N	02-28-2022	$170,000		$166,144
			4	[redacted]	0.40	C3	Q4	1010	7405	AL	63	3	1	1010	--	DT	--	1	2	N	N	02-28-2022	$155,000		$160,072
			5	[redacted]	0.18	C3	Q4	1090	14810	AL	59	3	1	520	520	DT	--	2	2	N	N	10-31-2021	$200,000		$210,926
		5	6	[redacted]	0.15	C3	Q4	846	12358	AL	28	2	1	820	615	DT	--	1	2	N	N	10-31-2021	$196,000	$230,000	$208,760
			7	[redacted]	0.86	C3	Q4	1060	11761	AL	62	3	1	470	300	DT	--	1	2	N	N	03-31-2022	$185,000		$185,221
		3	8	[redacted]	0.84	C3	Q4	1071	7810	AL	61	3	1	939	939	DT	--	1	1	N	N	02-28-2022	$207,000	$230,000	$204,384
			9	[redacted]	0.38	C3	Q4	930	7841	AL	64	3	1	930	700	DT	--	1	2	N	N	11-30-2021	$184,000		$198,766
			10	[redacted]	0.23	C3	Q4	990	7405	AL	59	3	1	990	--	DT	--	1	2	N	N	08-31-2021	$146,500		$173,910
		4	11	[redacted]	0.67	C3	Q4	1050	22438	AL	55	3	1.1	750	--	DT	3	1	1	N	N	03-31-2022	$206,000	$224,000	$173,447

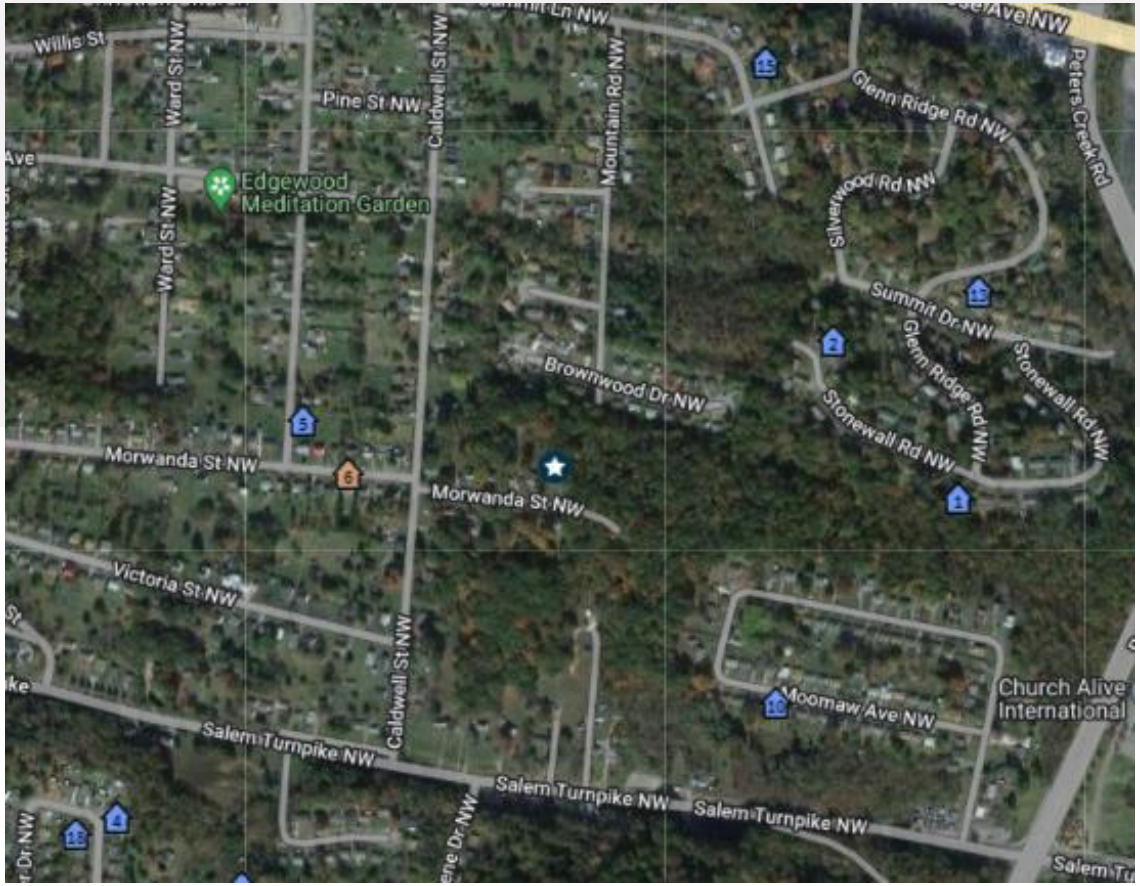
The map feature provides a high-level view of appraisal and model comparables in relation to the subject.

As you can see numerous model comparables are closer to the subject than most of the appraisal comparables.



Satellite view can reveal information about the surrounding area and nearby land use. The subject abuts a wooded area which could affect value and marketability. Several of the high-ranking model comps possess a similar wooded view.

Why did the appraiser use comparables with a dissimilar view? Do adjustments accurately account for this?



The sales price (median) map overlay displays how prices in the subject census block group (CBG) compares to surrounding CBGs.

Notice most of the appraisal comparables are from an area with a higher median sales price.

Why did the appraiser use sales from the area with a higher median sales price when sales in a more similar area are available? Did the appraiser account for this difference?

Legend:

- Subject Property
- Single-Family Model & Appraisal Comp
- Single-Family Model Comp

Summary

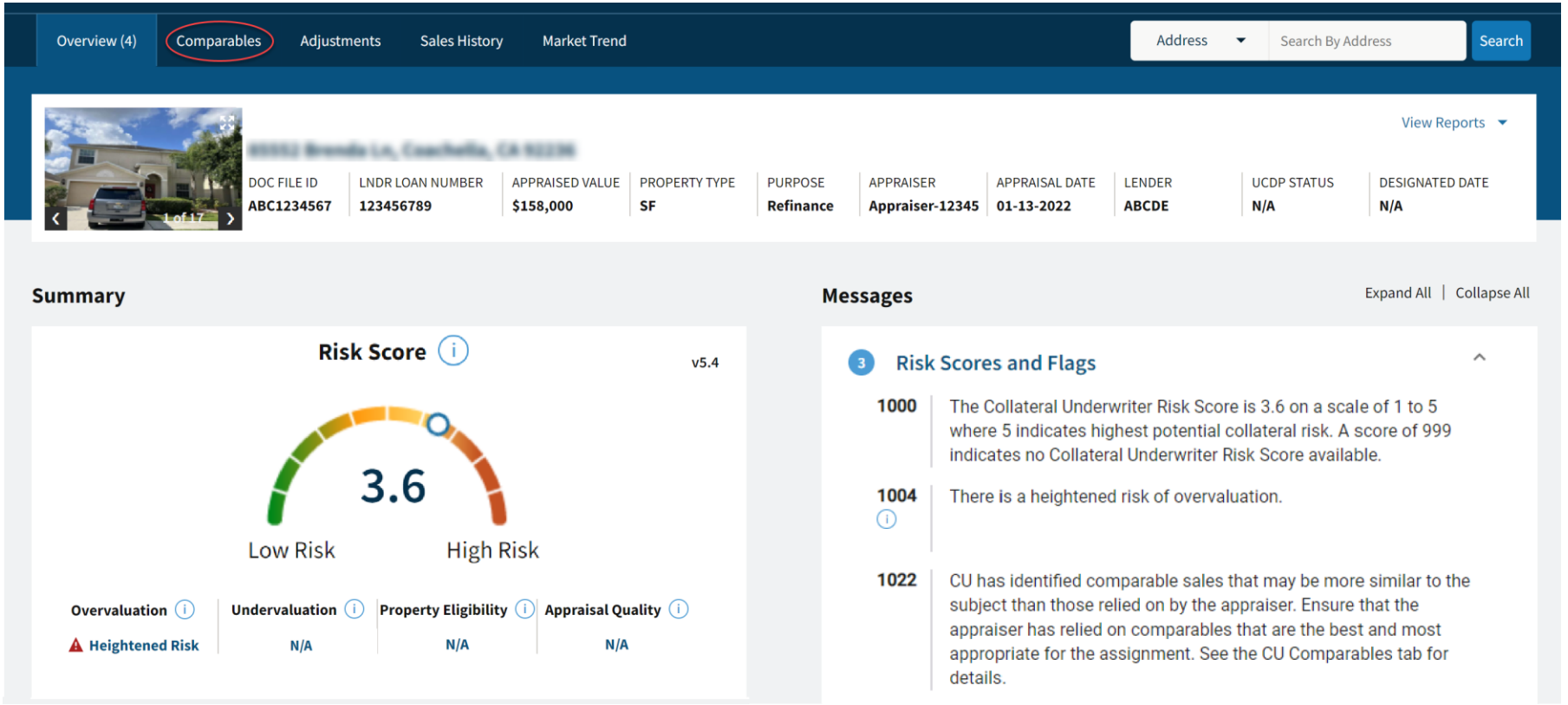
Review confirms there is a valid overvaluation concern.

After investigating the overvaluation risk flag using the tools in CU, the reviewer should now reach out to the appraiser to seek answers to the questions raised which suggest the subject property was overvalued.

Example 4: Resolved by Review

Overvaluation Risk Flag

In this example, the overvaluation reason code 1022 states "CU has identified comparable sales that may be more similar to the subject than those relied on by the appraiser. Ensure that the appraiser has relied on comparables that are the best and most appropriate for the assignment. See the CU Comparables tab for details."



In this case, notice the appraised value of $563k exceeds the model adjusted value in 9 of the 10 top comparables.

The highest ranked comparables appear to be similar to the subject in GLA, room count, age, lot size, quality, and condition, yet they don't appear to support the appraised value.

Before you make your decision if you agree or disagree with this finding, take a closer look to make sure the highest rated comps are described accurately or if they have attributes valued by the market but not standardized by UAD.

On the following slides, we will show you how you can use the map functionality in the CU web application to quickly and efficiently investigate the validity of the CU finding.

Edit	Adjst	Prop	Rank	Address	Dist	Cond	Qual	Gla	Lot	Type	Age	Bds	Bths	Bs Tot	Bs Fin	Attch	Prk	Lev	Traff	Vw	Loc	Date	Amount	Appr Adjst	Mdl Adjst
		★	--	[redacted]	--	C3	Q4	2537	5750	AL	10	4	2.1	--	--	DT	2	2	2	N	N	05-19-2022	$563,000	$563,000	
✓			1	[redacted]	0.12	C3	Q3	1900	5663	AL	8	4	3	--	--	DT	2	1	2	N	N	03-31-2022	$396,000		$472,288
✓			2	[redacted]	0.26	C3	Q3	2590	6970	AL	4	4	3	--	--	DT	3	1	2	N	N	02-28-2022	$530,000	$551,500	$563,465
✓		1	3	[redacted]	0.87	C3	Q4	2630	9148	AL	6	4	3	--	--	DT	2	2	2	N	N	04-30-2022	$500,000		$448,995
✓			4	[redacted]	0.47	C2	Q4	2360	8712	AL	5	4	3	--	--	DT	3	1	2	N	N	03-31-2022	$450,000		$423,348
✓			5	[redacted]	2.03	C3	Q4	2410	6534	AL	19	4	2.1	--	--	DT	2	2	2	N	N	03-31-2022	$420,200		$439,263
✓			6	[redacted]	0.55	C2	Q3	2360	4792	AL	4	4	3	--	--	DT	2	2	2	N	N	03-31-2022	$489,900		$511,117
✓			7	[redacted]	1.03	C2	Q4	2560	10454	AL	3	4	3	--	--	DT	2	2	2	N	N	04-30-2022	$500,000		$433,582
✓			8	[redacted]	2.04	C3	Q4	2530	6098	AL	16	4	2.1	--	--	DT	2	2	2	N	N	03-31-2022	$425,000		$442,789
✓			9	[redacted]	0.97	C3	Q4	2130	6098	AL	3	4	2	--	--	DT	2	1	1	N	N	03-31-2022	$439,000		$507,713
			10	[redacted]	0.34	C3	Q4	2350	10530	AL	4	4	3	--	--	DT	3	1	2	N	N	12-31-2021	$545,300		$494,800

Using the embedded Google map, we can zoom in on the subject and model comps to see if they have any non-UAD attributes. The subject and appraisal comparables include screened-in pools, but the top ten model comparables do not. We also know that screened-in pools are typical and valued in the subject market.

CU does not add the contributory value of pools to its adjusted comparable sale prices, so the value indications for all the comparables which lacked screened-in pools are too low.

Summary

Unmodeled influences

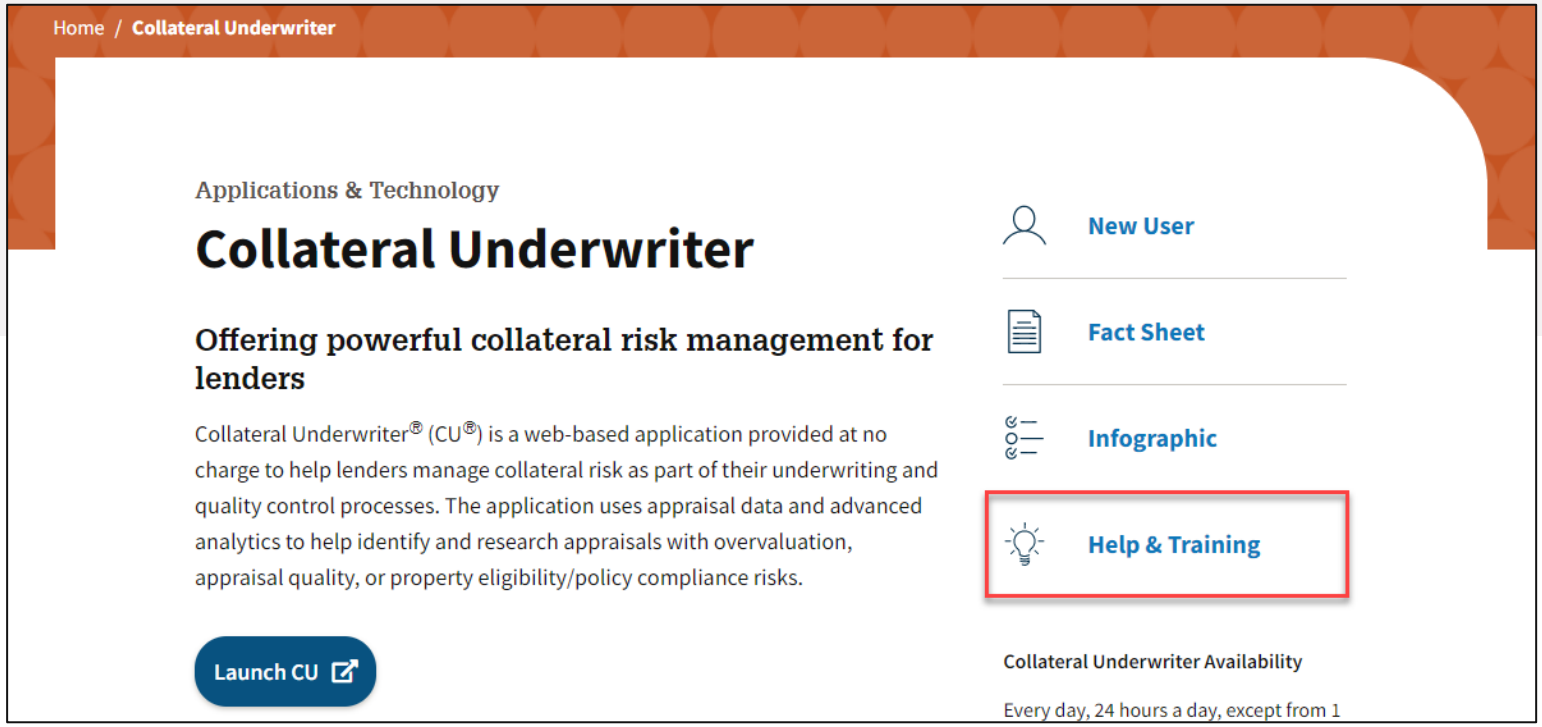
After investigating the overvaluation risk flag using the tools in CU, the reviewer can see that the subject and the appraisal comparable sales had features (screened-in pools) that were unknown to the CU model.

This is an example of why it is necessary to validate the CU findings. Issues like these can lead to unsupported model results.

In this example, the review results provide a resolution to the overvaluation risk concern – no follow up with the appraiser is needed.

For more information…

On CU features and other training materials, visit the Help & Training section of www.fanniemae.com/CU.



Fannie Mae®