



“Collateral Underwriter” – Impacts on the Appraisal Process

There has been a good deal of ‘chatter’ surrounding Fannie Mae’s implementation of “**Collateral Underwriter**,” which the agency characterizes as “... a proprietary appraisal risk management application developed by Fannie Mae to support proactive management of appraisal quality.” The release of this tool has been characterized by the ‘blogosphere’, real estate groups, appraisal organizations and self-proclaimed pundits as “an appraisal time bomb,” the ‘end of things as we know them’, ‘the demise of appraisers’ and all manner of critical characterizations. Before looking at potential impacts, it is important to understand what this “**Collateral Underwriter**” application is, how it works, and what is designed to accomplish.

First of all, Fannie Mae has been amassing appraisal data for quite some time, and utilizing that data to review appraisal report quality to ensure the appraisal findings comport with industry standards and underwriting guidelines. That process was historically occurring in the post-underwriting stage, rather than in real time during the actual underwriting of the loan. What this new tool will do is provide immediate feedback on appraisal quality during the underwriting of the loan, and *prior* to the closing of the transaction. In other words, the traditional practice of the lender underwriting the loan, proceeding with closing and only later learning Fannie Mae’s post-closing review of the file will result in a “buy-back” of the loan should be changing significantly.

Here’s how all this is designed to work:

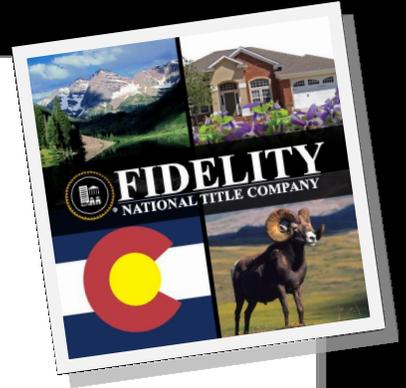
- During the underwriting process, the appraisal will be digitally uploaded to the Fannie Mae portal and “scrubbed” against various criteria which are designed to measure quality issues, overvaluation, and property eligibility, among others;
- “Collateral Underwriter” will sift the uploaded appraisal data and issue a ‘risk score’ to the submitted appraisal, which will determine from the outset whether the appraisal is acceptable, marginal or altogether unacceptable;
- As of January 26, 2015, the system has engaged 21 ‘hard stop’ messages that will amount to a “Not Successful” finding on the appraisal, meaning that further attention will be required before the transaction can be expected to proceed to closing;
- When a ‘hard stop’ situation occurs, the lender will be required to verify whether (i) the information is acceptable as submitted, or (ii) additional, supplementary information is required from the appraiser, or (iii) a new or corrected appraisal is required;
- If it is determined that the information provided is correct and there is no adverse effect on the loan to be delivered, the lender can request a manual over-ride of the “Not Successful” finding, changing it to “Successful” status, thus allowing the transaction to proceed to closing.

In a perfect world, Fannie Mae would suggest this new “**Collateral Underwriter**” is a vast improvement over current practices, because it facilitates the appraisal being vetted and

reviewed by this new tool, while the file is still being underwritten by the lender. This should give the lender an opportunity to address apparent appraisal deficiencies and ultimately reduce the number of buy-backs by Fannie Mae due to claimed appraisal issues.

The mortgage industry has certainly experienced a tremendous amount of change since the events of 2007 and following – changes in practices, guidelines, law and regulation. Many in the field are growing weary of those changes and are anticipating the implementation of “**Collateral Underwriter**” with dread. Questions abound from the appraiser community as to the additional efforts that the appraiser will be required to perform in order to meet this new standard. Real estate agents and lenders alike have expressed concerns as to whether compliance with this tool will result in further delays in the closing process.

As of the issuance of this Newsletter, it is a bit too soon to determine how well or poorly “**Collateral Underwriter**” will function to enhance or inhibit the closing process. Either way, it is here to stay, and those who have anticipated this new Fannie Mae tool and have embraced it will manage the flow for their clientele. Those who have not, will likely be struggling to make the necessary changes to remain effective.



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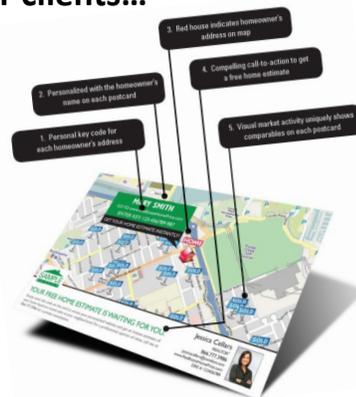
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