Appraisal Problems?

Fannie Mae's Collateral Underwriter™

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Introduction

On January 26, 2015, Fannie Mae introduced a powerful new tool called **Collateral Underwriter™**, a front end risk assessment tool, available free to lenders, to evaluate appraisals and appraisers. CU's purpose is to identify inflated appraisals and bad appraisers and to prevent another meltdown of the market. CU™ compares appraisals to its huge database of other appraisals and sold properties (Big Data) to detect errors in data, the appraiser's selection of sold comps, dollar adjustments and ppraisals that may have inflated values. CU™ red flags errors and adjustments that don't agree with their Big Data. CU™ rates each property and assigns the property a risk score of from 1 to 5 (low to high risk). Red flags require a revision or explanation from the appraiser. Fannie may even require the appraiser to produce the "market derived" data that he used to support his adjustment. Properties that have a high risk score of 4 or 5 will not be funded unless the appraisal is revised downward until it produces an acceptable risk score. Appraisers will be monitored by **Appraisal Quality Monitoring (AQM)** and those who earn too many red flags will get a call from Fannie Mae, be required to get some additional training or, God forbid, end up on Fannie Mae's **100% Review or Do Not Use List** which will essentially end the appraiser's career. As predicted, appraisers have become cautious and conservative in their appraised values and even declined appraisal assignments they deem too risky to their careers.

Big Brother and Big Data

In my first article about CU™, I predicted that Big Brother and Big Data would impact everyone in the real estate transaction: buyers, sellers, Realtors and appraisers. Such has been the case and now Fannie Mae, his little brother Freddie Mac, the FHA and VA all have similar risk assessment tools that are looking over the shoulders of every appraiser, at every appraisal, and comparing them to their Big Data.

Version 3.3 of CU™

Fannie Mae introduced Version 3.3 of CU™ in September, 2016 and this version provides additional scrutiny of the dollar adjustments appraisers make to their sold comparables. It is these adjustments that are crucial in determining the appraised value of a property. If the appraiser cannot support an adjustment with market derived data, **USPAP** prohibits the appraiser from making an adjustment. If the appraiser's adjustment is substantially higher or lower than what Big Data says it should be, a red flag stops the appraisal process until the appraiser revises the adjustment or provides market data to support the amount.

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I hear it all the time. "But my listing has a tile roof", "my listing is the nicest (biggest) in the whole neighborhood", "my listing has a 3 stall barn", "my listing has crown molding and a coffered ceiling". "My listing has a fabulous view". "my seller just spent a fortune on the kitchen".

All of the above components of value are examples of "**qualitative data**" (subjective) … as opposed to "quantitative data" … data with a numerical value. Appraisers can use quantitative data found in the MLS system to support an adjustment but can't support an adjustment based on qualitative data.

What value (not cost) does the market place on a view, a coffered ceiling, crown molding, a tile roof, or an expensive kitchen remodel? The data just doesn't exist so the appraiser cannot give those items an adjustment. What about the homeowner that has the biggest (over improved), most expensive home in the neighborhood? Typically, there are no sold comps to bracket that record sale price. What value is a 3 stall barn to the buyer who has no horses? Atypical homes outside the norm and over improved properties fare poorly with CU™.

The Painful Lesson to Be Learned

When a Realtor lists a home, a seller sets his asking price, or a buyer writes a purchase contract, Big Brother is not looking over their shoulders. Big Brother couldn't care less what everyone **wants** to do. Only when the property sells or the homeowner wants to refinance and somebody needs a loan, does Big Brother get interested. When a lender orders an appraisal, that tile roof, crown molding, great view, or 3 stall barn probably won't boost the value of the property because there is no supportive market data. The value that everyone **"wanted"** to be there cannot be supported and now, there is an appraisal problem. No appraisal, no loan and no loan no sale. Why? Because Big Brother is now looking over everyone's shoulder.