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Appraisal modernization? Is this the future? Is this evolution, revolution, or regression? - by Bill Pastuszek

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Appraisal modernization? Is this the future of appraisal? Is this evolution, revolution, or regression? The March 2019 Fannie Mae Newsletter (https://www.fanniemae.com/content/news/current-appraiser-newsletter.pdf) raises some truly revolutionary (to some) points. See the following Q&As.

What constitutes Appraisal Modernization? Fannie's oversight entity, the Federal Housing Finance Agency (FHFA) has laid out key objectives Fannie Mae is expected to accomplish. The letter states; "Since 2018, our scorecard objectives have included appraisal modernization, with two areas of focus." The first is to collaborate with Freddie Mac on updating the Uniform Appraisal Dataset (UAD) and appraisal forms. Second, the agency is to work independently on "modernization of the appraisal process." A variety of technologies and methodologies that could enhance the GSE's ability to manage collateral risk and make the process more efficient for lenders, borrowers, appraisers, and investors have been examined to achieve the "scorecard objective."

What is Property Data Collection (PDC)? This represents new ways to obtain descriptive data for properties that secure the loans we acquire. The test includes mobile apps that guide a property data collector to generate a robust and accurate set of data elements, photos, and floor plan with descriptive data and supporting exhibits delivered to Fannie Mae which then uses it to analyze the loan's collateral risk and then instruct the lender as to the level of collateral validation needed to make the loan eligible. Additional aspects of this test include experimentation around what data elements are most important for measuring collateral risk and who does the best job of collecting accurate data. (Author's italics)

What is the 1004 P Desktop Appraisal? In cases where appraisals are determined to be necessary, the GSE is testing the performance of a desktop appraisal informed by the photos, measurements, and other facts about the subject property that were previously collected. As the scope of work, limiting conditions, and certifications in the existing URAR appraisal form (1004) are not suited to

these desktop appraisals, a modified version of the 1004 called a “1004P” was developed.

How are Scope of Work and USPAP Affected in Appraisal Modernization? The desktop appraisal process means that the appraiser is relying on someone in the field. One question that arises is whether this requires disclosure of significant appraisal assistance as described in USPAP. The newsletter notes: “The property data collection happens prior to, and completely independent of, the appraisal assignment. In fact, the property data collection is finished and delivered to Fannie Mae” before determining if an appraisal is required. The article goes on to say hat the data is purely “factual.” The newsletter considers the data to be in the same class with other third-party data sources that appraisers routinely rely on (e.g., survey, flood map, MLS record, blueprint, zoning map, public record). USPAP Advisory Opinion 31 is also cited. The commentary places property inspection information in the same class as tasks such as taking notes, writing down measurements the appraiser provides when measuring a structure, taking photographs of the subject property, and providing clerical duties are not considered significant appraisal assistance.”

The commentary continues: “ As we see it, surveyors, FEMA flood engineers, listing agents, architects, zoning officers, tax assessors, etc., are not disclosed as providing significant appraisal assistance in the scope of work because (1) they work completely independently of the appraiser, and (2) they do not participate in developing the appraiser’s opinion of value. Property data provided to the appraiser works exactly the same way: it is strictly observation, measurement, and fact. The collector of the data does not participate in the development of the professional opinion of value, so the appraiser would not need to identify the person who collected the property data as having provided professional assistance. However, the appraiser would need to disclose the use of the property data and does need to disclose any extraordinary assumptions necessary to support that usage. Again, the assigned appraiser must make the ultimate decision here. But as we see it, the PDC process should work well within the existing USPAP requirements.” There is an Appraisal Foundation video, Inspections & Hybrid Appraisal Assignments Q&As.

How are Appraisers Going to be Affected? Too soon to tell, exactly. Author’s note: He neither agrees nor disagrees at this point. Interesting, though, that the property inspection, when disconnected from the appraisal, then falls into the general basket of third party, secondary, and, often not highly accurate, information. Nonetheless, interesting concepts, good subjects for a follow up article.

This is an evolving issue. The MBREA is providing a Breakfast with Experts in April where a FNMA representative will speak. It’s worth attending. There might be some good give and take. More to come on this issue.

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