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## **Archambault asks: Are you ready for the Uniform Mortgage Data Program?**

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By Rey Archambault

September 1, 2011 is looming on the horizon as a day which will witness great changes in how residential appraisers complete and transmit appraisals to their lender clients. In a move mandated by secondary market giants Fannie Mae and Freddie Mac, appraisal reports to be used for underwriting loans eligible for packaging and sale to investors will need to meet specific and uniform criteria with respect to description of properties and particularly in defining the physical condition and overall construction quality of the subject property and comparable sales.

The Uniform Mortgage Data Program (UMDP), a joint effort of Fannie and Freddie, is intended to standardize and improve appraisal data quality and consistency and promote the collection of electronic appraisal data. The Uniform Appraisal Dataset (UAD) and Uniform Collateral Data Portal (UCDP) are components of the UMDP.

Without getting into technical specifics, the UAD in essence standardizes definitions and responses for certain fields within an appraisal report, particularly those dealing with condition and quality of subject property and comparable sales, replacing long recognized reporting terminology such as good, fair, poor, etc., with more rigid quality and condition responses (Q1-Q6 and C1-C6, ranging from best to worst), following defined criteria relating to such codes. The UCDP is an appraisal report portal which facilitates electronic collection of the appraisal data sent by the lender to Fannie and Freddie (referred to as Government-sponsored Enterprises, or GSEs), allowing the standardized data collection and analysis to determine if the property will conform to underwriting guidelines, allowing the loan to be eligible for secondary market purchase.

This will shift emphasis on review and approval of a loan for purchase to prior to funding, rather than review after the fact in the case of non-performing loans which were sold by lenders in the secondary market under a standard representations and warrants agreement, which was designed to speed up the approval process. To this point, the GSEs having recourse against lenders in such cases likely did not view or thoroughly review an appraisal report prior to guaranty, requiring originating lenders to repurchase non-performing loans with material defects in file documentation, including the appraisal. Going forward, for a loan to be eligible for secondary market packaging and sale, GSE approval prior to funding will be needed. An additional benefit to the GSEs will be the wealth of data they obtain from routine appraisal reports in a uniform digital format which will enhance computer generated valuation models (artificial valuation models, or AVMs) which the lending community has been using in recent years in place of full appraisals on low risk loans in order to reduce processing time and related costs, contrary to conventional wisdom which would suggest the cost-benefit of a full appraisal would far outweigh potential loan losses from AVMs,

particularly in regions of the country such as New England.

Lenders will have their own UMDP issues to deal with in addition to getting used to the new appraisal reporting format. The Uniform Loan Delivery Dataset (ULDD) identifies the data points required for all loan types delivered to either Fannie or Freddie, who have issued a 170 page implementation guideline memo for the new format. The National Association of Realtors has been briefed on the UMDP topic, however, until formal education on the topic is made available for Realtors, agents and appraisers may be speaking a different language in terms of condition and quality ratings being reported by appraisers come September, which could lead to frustration in instances where properties are found to be deficient in one or more of these areas from an underwriting standpoint. The trickle down effect here is agent communication with potential buyers, who often receive a copy of an appraisal report, but are not identified as a defined user of the report. Where lenders make a copy of the appraisal available to the borrower, interpretation and clarity of terminology will not be as transparent as it is at present.

The appraisal process will not change and the appraisal forms used for single family and condo reports will remain unchanged, for now. So what's the big deal? There is a lot to learn on both the appraiser's part and the lender's, and the clock is ticking. There will be a significant learning curve associated with completing appraisal reports and in how lenders review and underwrite the UAD compliant appraisals. Appraisers at this point should have familiarized themselves with the new system or seek to do so quickly. Professional organizations such as the Appraisal Institute, a leader in real property valuation training and education, have developed seminars and webinars designed to assist appraisers in dealing with the upcoming changes. Appraisers need to take a proactive stance in educating themselves and assisting their lender clients in the transition as well, serving to keep the appraisal-lending pipeline flowing and provide an added measure of goodwill to already established client relationships.

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