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## **Collateral Underwriter - Fannie Mae's new tool**

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There will be many articles written about the new Collateral Underwriter tool being implemented by Fannie Mae. According to a letter sent to all lenders dated 2/4/2015, Fannie Mae has compiled statistics which show a major problem with appraisals that I have been talking about for quite some time. Appraisers are simply not doing enough adjustments for differences that exist between the comparable sales and the subject property being appraised. This often results in a misleading appraisal and often under values the property. The following is an excerpt from the letter:

In the December, 2014 Selling Guide update, Fannie Mae removed a long-standing guideline that when adjustments to the comparable sales exceeded 15% net and 25% gross, the appraiser was required to provide an explanation as to why the comparable was chosen for use in the appraisal report. This requirement for commentary was based on the premise that the best comparable would require the fewest adjustments.

While this premise remains true in theory, the guideline for 15% net and 25% adjustments was widely implemented as an eligibility "hard stop" due to many rules-based automated review systems. Analysis of appraisals submitted to UCDP made it clear that many appraisal reports never exceeded the 15% or 25% guideline - the focus of many appraisers had become keeping the amount of the adjustments within the guidelines instead of reflecting actual market reaction for specific characteristic(s).

To support the decision-making process to remove this guideline, Fannie Mae analyzed 700,000 appraisals submitted to Fannie Mae in Q1 2014, including analysis of more than 2.5 million comparable sales.

Nearly 95% of comps analyzed had net adjustments less than 15%, suggesting that appraisers strictly adhered to the net adjustments guideline. Fannie Mae's concern is that the adjustments might be artificially low.

Appraisers also appear to adhere to the 25% gross adjustment guideline, with nearly 94% of comps having gross adjustments less than 25%. Again, this raised concerns with the accuracy of these adjustments.

In addition to the data suggesting that adjustments are being forced to remain within the 15% and 25% parameters, analysis of the same data supports the notion that comparable adjustments are not necessarily market-based. Analysis of appraisals submitted to the UCDP showed that the median adjustments made for gross living area (GLA) are fairly consistent across the country, regardless of characteristics such as price tier and size - which defies the reality and logic of market-based differences.

Analysis shows little variation in the median GLA adjustment despite significant variation in price. Only in Hawaii does the median GLA adjustment break \$50 per square foot, even though median GLA price exceeds \$50 per s/f in all 50 states and is significantly higher in certain market areas.

The analysis results reflected provide strong evidence that adjustments have been made to fit within guidelines that were not intended to be rules, but instead a trigger for commentary and rationale. While the best comps remain those that warrant lower adjustments - if those adjustments are based on market reaction and well-supported - the removal of the net and gross adjustment guidelines appropriately shifts focus to supporting market-based adjustments regardless of the amount of the adjustment either as a single line item or in total.

Fannie Mae no longer requires specific comments from an appraiser if a comparable sale is older than 6 months; however, a comment is still required when a comparable sale is older than 12 months.

I find it amazing that only 5% of the appraisals in the country exceeded adjustment guidelines, especially since I exceed them on almost every appraisal I write. Our housing in New England is very diverse and if differences are truthfully adjusted, it is typical to exceed the guidelines. The only requirement was for appraisers to comment if they had to exceed them. Apparently what really happened is that appraisers were not truthful because they thought it made their appraisal "look better." For years I have been telling underwriters that they need to start questioning the appraisers who don't exceed guidelines instead of the ones that do, because they are probably doing the better job. There are good seminars that appraisers can take especially with the MBREA to learn how to correctly extract a GLA adjustment from the market. If they look at the MLS photos of the comparables and talk to the brokers who sold them to VERIFY the circumstances of the sale as well as the quality, condition and amenities the comparables have, then make truthful adjustments, an accurate appraised value will be the result. After all, that's what we are being paid to do. There are many other aspects of the CU that will be discussed in a future article. These to me, are the most important.

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