

# Enhancement of Risk Controls

## Collateral Underwriter

Designed to assess the quality of appraisals delivered to Fannie Mae in order to select loans for hands-on QC review and drive Appraiser Quality Monitoring list

The Collateral Underwriter Tool leverages the Uniform Appraisal Dataset (UAD) data submitted by lenders using proprietary analytic models to flag appraisals that may be outside of our requirements or eligibility parameters for further review.

## Tool Contents and Capabilities

**Appraiser Data Quality**

- Data quality screening to identify inconsistencies between an appraiser’s information and the information provided by peer appraisers for the same property
- Data analysis to highlight adjustments that do not reflect fair market value

**Assessment of Property**

- Geographic Information System (GIS) analytics recognize and display unique spatial attributes on homes
- Chain of ownership (from public records) and mortgages related to property

**Assessment of Comparables & Appraisals**

- Diagnostic tests for appraisal quality and comparable selections
- Tools for comparing the appraiser’s comparable selections to other potential comparables identified by the model
- Graphic display of historical prices for properties and comparables in relation to market value indices

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## Collateral Underwriter– Helping Fannie Mae identify potential defects in loan appraisals

EXAMPLE #1: Improper adjustments resulting from inaccurate data

John Appraiser prepares an appraisal for Bank A on the subject property 123 Main Street. In estimating the subject property value, John uses three comparable sales that are near the subject property and makes adjustments to the subject property value based on the differences in square footage of the comps:

Property	Address	Gross Living Area (GLA)	GLA Value Adjustment
Subject	123 Main St	1950 Sq Ft	N/A
Comp #1	111 First St	1800 Sq Ft	+\$7,500
Comp #2	222 Second St	1400 Sq Ft	+\$25,000
Comp #3	333 Third St	2000 Sq Ft	-\$2,500

Fannie Mae runs the loan through Collateral Underwriter and finds that the appraiser made an improper adjustment by reporting incorrect square footage on one of the comparables. Although John stated that Comp #2 was 1400 sq ft, other appraisals (including several of John's own) indicate that Comp #2 was actually 1800 sq ft. This facilitated significantly larger positive adjustments and resulted in a potentially inflated appraisal value for the subject property.

<u>Gross Living Area Value Report for 222 Second St</u>	
<u>Value: 1400 sq ft (1 record)</u>	
2013-01	Appraisal comp from John Appraiser for Bank A
<u>Value: 1800 sq ft (34 records)</u>	
2013-01	Appraisal listing from Jim Value for Bank B
2013-01	Appraisal listing from Sue Money for Bank C
2012-12	Appraisal listing from John Appraiser for Bank D
2012-12	Appraisal comp from Jim Value for Lender E
2012-??	Public Record

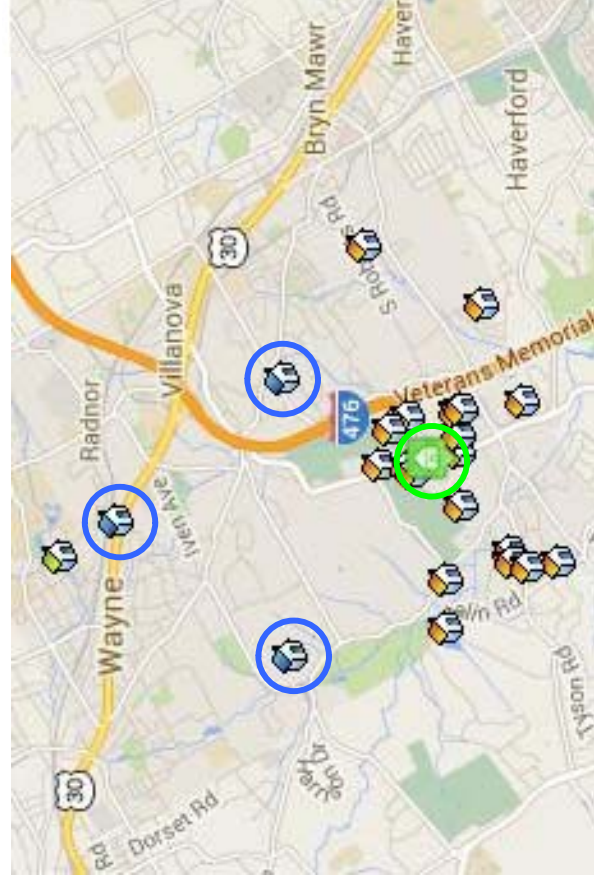
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### EXAMPLE #2: Improper Comps

Sue Appraiser prepares an appraisal for Lender A using the sales comparison approach. Sue uses data from three other recently sold properties as comparable sales to support the value derived for the subject property. All of the comps are within several miles of the subject property.

Collateral Underwriter performs an automated market analysis using Fannie Mae's property database. The tool identifies a number of recent sales in the subject's neighborhood that are closer in proximity to the subject than the comps that were used by the appraiser. In addition, through using census tract data and geo-spatial analysis, the tool identifies that the comps used by the appraiser are in different neighborhoods with higher property values than the subject.



Ignoring relevant comparables in the immediate vicinity in favor of comparables that are physically superior or located in Neighborhoods with higher home prices may lead to an inflated appraisal value on the subject property

- Green house is subject property
- Blue houses are comps selected by Appraiser
- Orange houses are comps identified by Collateral Underwriter