



Understanding the Collateral Underwriter™ Risk Score, Flags, and Messages



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The screenshot shows a WebEx Q&A panel. At the top, there is a header with a dropdown arrow, the text "Q&A", and a close button (X). Below the header is a button labeled "All (0)". The main area of the panel contains a dropdown menu labeled "Ask:" with "All Panelists" selected. This dropdown menu is circled in red. Below the dropdown is a text input field with the placeholder text "Select a participant in the ask menu first and type your question here. There is a 256 character limit." To the right of the text field is a "Send" button.

Please direct questions
to "All Panelists"



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- Overview
- Score and Message Summary
- Key Appraisal Components/CU Messages
 - Data Integrity
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 - Adjustments
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- Data Quality and Model Error Messages
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Collateral Underwriter is a proprietary appraisal review application developed by Fannie Mae that performs an automated analysis of appraisals submitted to the Uniform Collateral Data Portal®.

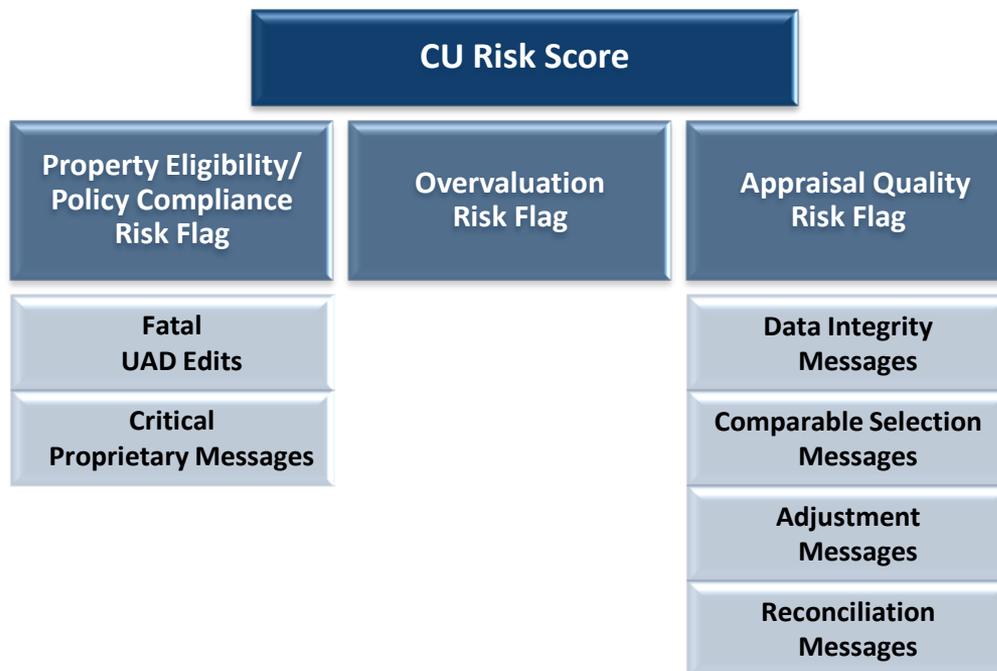
- ❖ The purpose of Collateral Underwriter is to identify appraisals with heightened risk of property eligibility or policy compliance violations, overvaluation, and appraisal quality issues.
- ❖ Distribution of CU provides lenders with additional transparency and certainty by providing them access to the same appraisal data and analytics used in Fannie Mae's quality control framework.
- ❖ External distribution of CU is intended to support more proactive management of appraisal quality by empowering lenders to address potential issues prior to loan delivery.
- ❖ While our Proprietary Messages performed basic eligibility, compliance, and reasonableness checks, CU leverages an extensive database of market data and statistical models to perform a more comprehensive analysis of the appraisal.
- ❖ Rather than rely on arbitrary, rules-based guidelines CU produces model-derived, market-specific results.
- ❖ Starting in January 2015, the CU risk score, risk flags, and messages will be available to all lenders and their lender agents through UCDP® just like our Proprietary Messages today.

For our pilot participants and their lender agents, Collateral Underwriter feedback will be available in UCDP® and on the Submission Summary Report (SSR) starting on December 15.

CU Score, Flag, and Message Summary



The objective of CU is to assist lenders with assessing property eligibility and appraisal quality. It does not provide approvals or denials, nor should it be used as basis for a credit decision.

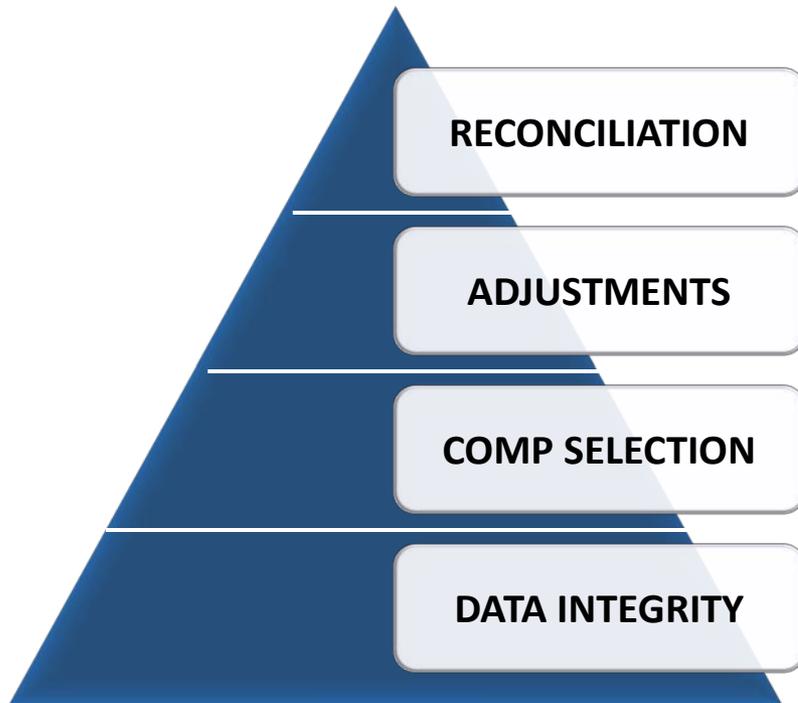


- ❖ The score reflects CU's automated assessment on a scale of 1.0 (lowest risk) to 5.0 (highest risk).
- ❖ A score of "999" indicates a score could not be generated.
- ❖ Risk flags identify factors contributing to high scores.
- ❖ Proprietary Messages and UAD Edits highlight potential property eligibility or policy compliance violations.
- ❖ Statistical modeling estimates probability of material overvaluation. However, no opinion of value is provided.
- ❖ Appraisal Quality messages direct users to specific aspects of the appraisal that may warrant further attention.

The Risk Score, Flags, Messaging do not affect the UCDP® submission status and are only warnings. Lenders are encouraged to review this feedback, but do not need to "clear" the CU findings.



In addition to Property Eligibility and Policy Compliance, CU analyzes key appraisal components including data integrity, comparable selection, adjustments, and reconciliation.



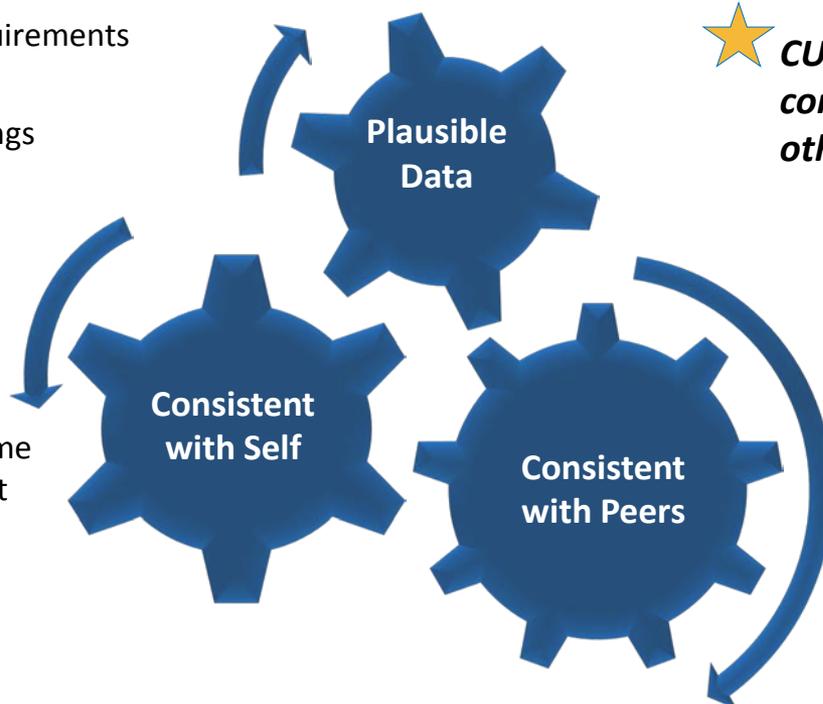
- ❖ Are the most relevant comps given most weight in reconciliation?
- ❖ Are adjustments based on typical market reaction?
- ❖ Are the selected comps representative of the subject property?
- ❖ Are physical attributes and transaction terms accurately reported?

Collateral Underwriter provides detailed messaging aligned with each of these appraisal components to help users identify potential issues leading to high risk scores.



Because many comp transactions are observed multiple times (~ 5 times on average), CU is able to identify inconsistency within a single appraiser's body of work and relative to their peers.

- ❖ Compliance with UAD requirements
- ❖ Data reasonableness
- ❖ Proper UAD condition ratings



★ ***CU flags appraiser-provided data that conflicts with prior observations or is otherwise implausible.***

- ❖ When appraisers use the same comp transaction in different appraisals, the description should be consistent.

- ❖ The appraiser's description of any comp transaction should be consistent with the description provided by peers.

Appraisals with multiple data discrepancy messages and/or egregious errors get higher scores. Users should confirm the accuracy of reported physical features and transaction terms.

Data Integrity Example



In this example, there are 4 comps ranging from \$264,900 to \$325,000 and an appraised value of \$285,000. However, CU flags 3 of the 4 reported comp sales prices for potential inconsistencies.

Address	Age	Lot	GLA	Bd	Bth	Bsmt t	Bsmt f	Pk	C	Q	V	L	GD	Date	Amount	Adjusted
123 Sand Dr, Anytown, USA	11	11711	2597	4	3	0	0	2	2	3	N	N	.	2014-01	\$285,000	\$285,000
241 Cobble Pl, Anytown, USA	7	5811	2964	3	3	0	0	2	2	3	N	N	0.86 mi	2013-07	\$325,000	\$320,880
331 Stone Way, Anytown, USA	15	9990	2337	4	2	0	0	2	2	3	N	N	0.98 mi	2013-11	\$279,900	\$278,450
622 Pebble Ln, Anytown, USA	11	13212	2231	3	2.1	0	0	2	2	3	N	N	0.83 mi	2013-09	\$285,000	\$306,380
217 Rock Rd, Anytown, USA	20	7710	2560	4	2.1	0	0	2	2	3	N	N	0.28 mi	2013-07	\$264,900	\$281,911

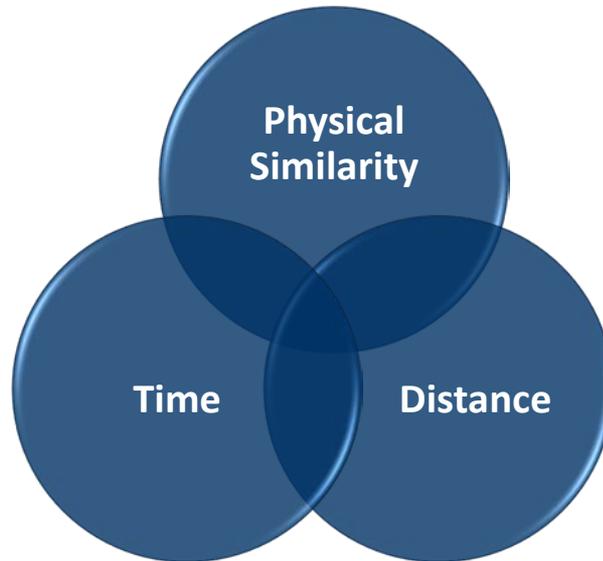
- ❖ **Comp 1: [FNM0402]** The reported sale price is materially different than what has been reported by other appraisers.
✓ *5 other appraisers report a sale price of \$300,000. No other records of \$325,000.*
- ❖ **Comp 2: [FNM0401]** The appraiser has reported materially different sale price(s) in one or more appraisal reports.
- ❖ **Comp 2: [FNM0402]** The reported sale price is materially different than what has been reported by other appraisers.
✓ *3 other appraisers report a sale price of \$240,000. The appraiser has also previously reported \$240,000.*
- ❖ **Comp 3: [FNM0401]** The appraiser has reported materially different sale price(s) in one or more appraisal reports.
- ❖ **Comp 3: [FNM0402]** The reported sale price is materially different than what has been reported by other appraisers.
✓ *7 other appraisers report a sale price of \$267,000. This appraiser has also previously reported \$267,000.*

SUMMARY: Three of the four comparable sales prices have been potentially misstated by the appraiser. All discrepancies would push the appraised value upward by a significant margin.



CU takes into account Physical Similarity, Time, and Distance when analyzing overall relevance of comparable transactions. Significance of each of these factors may vary from market to market.

- ❖ All UAD-standardized features are considered.
- ❖ Significance of each feature is model-derived and market-specific.



★ ***CU ranks appraiser-provided comps against a pool of available comps – not against arbitrary guidelines.***

- ❖ Comparables up to one year are considered by the model.
- ❖ Date of sale receives more weight in rapidly increasing/declining markets.

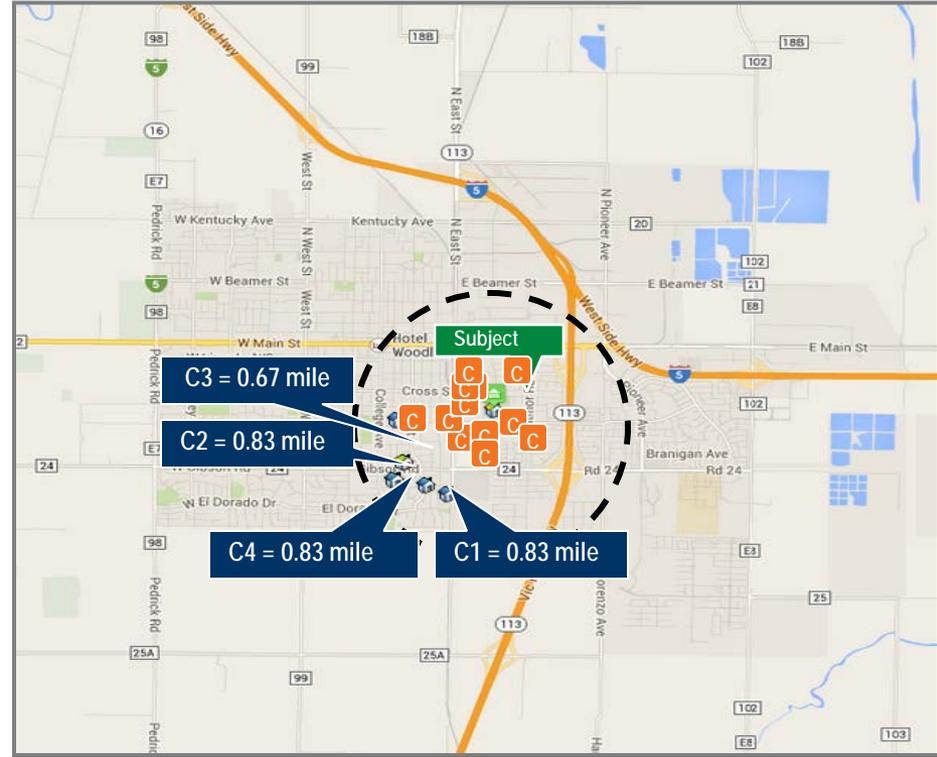
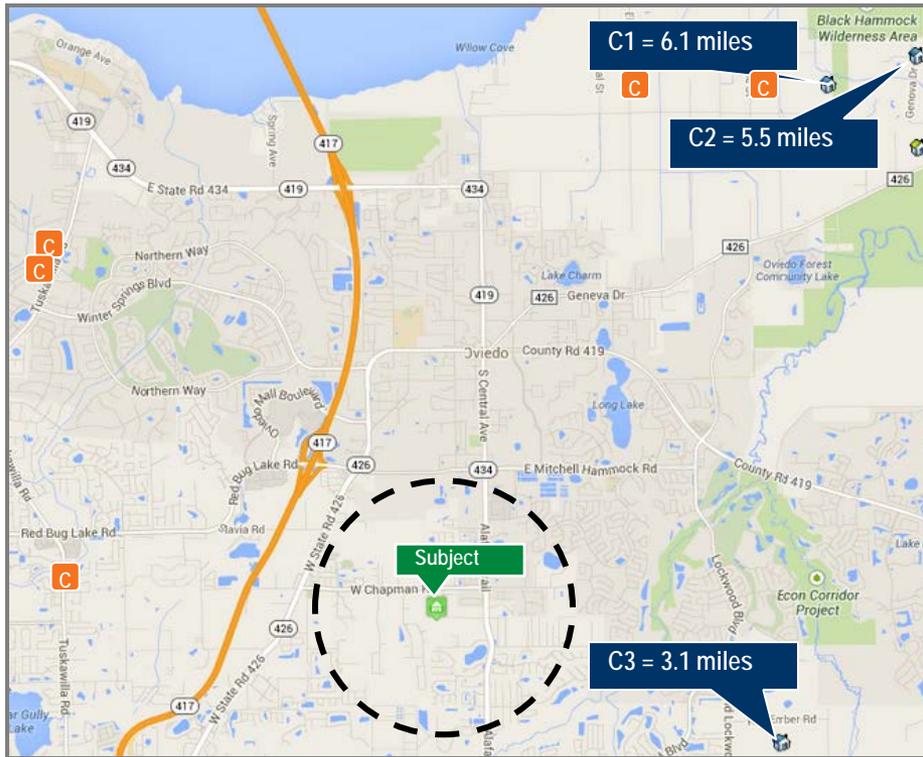
- ❖ Comps in closer proximity are preferred when all else is equal.
- ❖ Model-derived location factors and straight-line distance are considered.

CU flags appraisals with material difference between the appraiser-provided and model-selected comps. Users should determine if more relevant comps were available, but not utilized by the appraiser.

Comp Selection Example



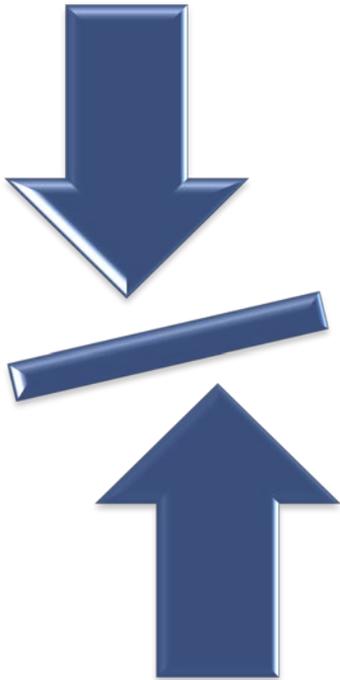
Below are two different appraisals on different properties in CU. On the left, the appraiser's comps are 3 to 6 miles away. On the right, the appraiser's comps are all within 1 mile of the subject.



SUMMARY: Relying on an arbitrary distance guideline, the appraisal on the left appears to be high-risk while the one on the right appears low-risk. However, CU would suggest the opposite is actually true.



Collateral Underwriter produces statistically-derived, market-specific adjustments for all UAD-standardized physical characteristics, date of sale, location, and sales type.



- ❖ **Physical Similarity:** Regression analysis produces adjustments for all UAD property features. Different models are used for single family and condo property types.
 - ❖ **Time:** Negative or positive adjustments are applied to comparable sales based on price appreciation or decline in the subject market.
 - ❖ **Location:** CU applies model-derived adjustments at a Census Block Group (CBG) level to account for differences in location.
 - ❖ **Sale Type:** CU applies adjustments to REO, Short Sale, Relocation, and non-arms-length transactions based on observed discounts in the subject market.
- ★ ***CU does not adhere to the widely recognized – and often misinterpreted – 15% net and 25% gross adjustment guidelines.***

CU flags adjustments in the wrong direction or significantly different than peer and model adjustments. Lenders should determine if adjustments are adequately supported and reflective of market reaction.

Adjustment Example



In this example, the appraiser has provided 4 of the best comparables available. However, most are superior to the subject and potential under-adjustment for several features has been flagged.

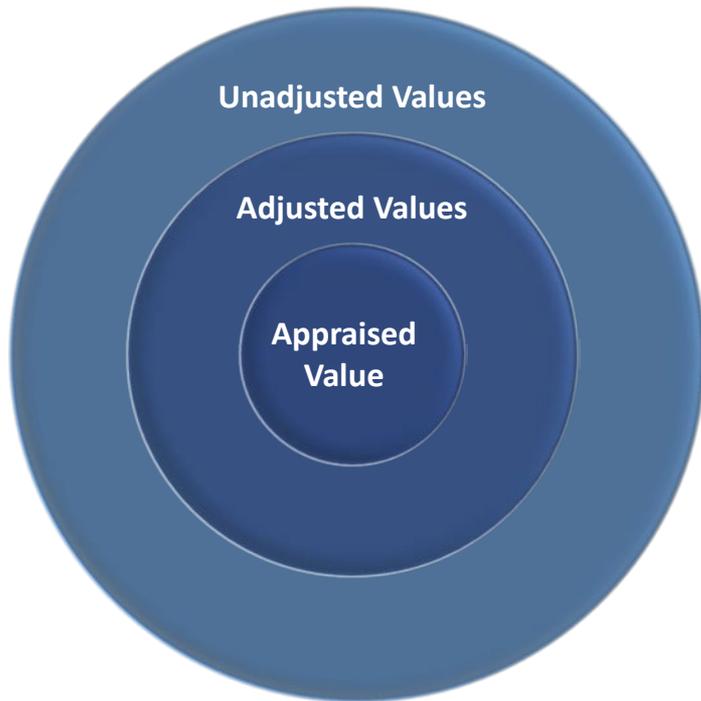
Address	Age	Lot	GLA	Bd	Bth	Bsmt t	Bsmt f	Pk	C	Q	V	L	GD	Date	Amount	Adjusted
2408 Park Pl, Anytown, USA	105	5663	3004	4	3	1200	60	1	3	3	N	N	.	2014-02	\$789,000	\$789,000
2208 Park Pl, Anytown, USA	105	7841	3712	5	4	1502	508	2	3	4	N	N	0.04 mi	2013-08	\$720,000	\$744,900
2080 Park Pl, Anytown, USA	107	10890	3766	4	3	1708	0	2	3	3	N	N	0.68 mi	2013-09	\$805,000	\$789,100
1681 Lake Pkwy, Anytown, USA	113	5663	3490	4	4	1318	850	2	3	3	N	N	0.86 mi	2013-12	\$823,500	\$792,300
2160 Park Pl, Anytown, USA	113	4792	2944	4	3	1283	1105	2	3	2	N	N	0.7 mi	2014-02	\$859,000	\$805,400

- ❖ **Comps 1-3: [FNM0607]** The GLA adjustment is smaller than peer and model adjustments.
 - ✓ *Appraiser adjusts only \$15/SF for GLA despite the fact comps are selling for \$200-\$300/SF.*
- ❖ **Comps 2: [FNM0611]** The lot size adjustment is materially different from peer and model adjustment.
 - ✓ *No adjustment for double lot despite the appraiser's \$450,000 estimate of site value for the subject.*
- ❖ **Comps 1-4: [FNM0640]** The appraiser's net adjustments are materially different from the model's net adjustments.
 - ✓ *Nominal adjustment for extra bathrooms*
 - ✓ *Adjustments of \$2-5 per square foot for basement finish*
 - ✓ *Appraiser makes a nominal \$3,000 adjustment for a second garage stall to all comparables.*

SUMMARY: Utilization of materially superior comparables with under-adjustment for differences in physical characteristics can lead to over-valuation – even if the comps are among the best available.



Collateral Underwriter examines the relationship between the appraiser's opinion of value and the adjusted and unadjusted ranges of comparable sales prices.



- ❖ Appraised values far outside the range of unadjusted comp values.
- ❖ Appraised values outside the range of adjusted comp sales prices.
- ❖ Appraised values with support from a single comparable.
- ★ *Values at the lower and upper ends of the range of comp values are highlighted.*

CU flags appraised values that are supported by a single comps or unsupported by the appraiser-provided comps. Lenders should confirm that most weight is given to the most relevant sales activity.

Reconciliation Example



Some reconciliation errors are obvious, such as appraised values outside the range of adjusted comparable values. Other reconciliation errors are more subtle, but equally impactful.

Address	Age	Lot	GLA	Bd	Bth	Bsmt t	Bsmt f	Pk	C	Q	V	L	GD	Date	Amount	Adjusted
72 Sleepy Hollow Ln, Anytown, USA	63	8699	3019	5	3	865	865	2	3	4	N	N	.	2013-04	\$718,000	\$718,000
46 Sleepy Hollow Ln, Anytown, USA	60	17135	2589	3	2.1	504	504	2	3	4	N	N	0.11 mi	2013-03	\$510,000	\$547,900
33 Sleepy Hollow Ln, Anytown, USA	61	18295	3383	4	2.1	1691	730	2	3	4	N	N	0.1 mi	2012-05	\$550,000	\$577,580
46 Willow Rd, Anytown, USA	71	29500	3580	4	2.1	1790	895	2	3	4	N	N	0.69 mi	2012-06	\$720,000	\$722,170

- ❖ **[FNM0505] The appraised value is near the maximum adjusted comparable sale value with support from only that comparable sale.**
 - ✓ *The range of comparable sales prices is very wide, extending from \$510k to over \$720k. Even after adjustments, the range still extends from under \$550k to over \$720k.*
 - ✓ *Comps #1 and #2 are located on the subject street and sold for \$510,000 and \$550,000 respectively.*
 - ✓ *Comp#3 sold for \$720,000, but has the largest Lot Size, largest GLA, and is furthest from the subject. Research suggests sale prices in Comp #3's neighborhood are dramatically higher than in the subject neighborhood.*

SUMMARY: The appraiser appears to have overstated the value by giving nearly all weight to the least relevant comparable with inadequate adjustments.



Additional messages are provided to highlight suspected data entry errors, out-of-scope property features, and reasons for unscored appraisals (“999s”).

❖ CU Data Quality Messages highlight suspected data entry errors that may lead to unscored appraisals.

- Examples of Data Quality Messages include:
 - ✓ *Invalid property addresses, dates, or UAD ratings*
 - ✓ *Implausible sales prices or property features*
 - ✓ *Failure to provide at least three closed sales, multiple uses of the same comp within a single report, net/gross adjustments that don't match sum of line item adjustments, etc.*
- Data Quality Messages are infrequent and can be resolved in most cases

❖ Model Error messages provide specific reasons for unscored appraisals (“999s”)

- Examples of Model Error Messages include:
 - ✓ *Multiple data errors (noted by Data Quality Messages above)*
 - ✓ *Unsuccessful geocoding of the subject property or a number of comparables*
 - ✓ *Subject attributes that can not be modeled or areas with extremely little sales activity*
- Geocoding errors are the most common cause of unscored appraisals. It is extremely rare that subject attributes or locations cannot be modeled.

Users should review these messages carefully to determine if the errors can be corrected by the appraiser or if they are unable to be resolved.



Sample SSR

Submission Summary Report



UCDP Submission Summary Report (SSR)								
Doc File ID		110001907G		Report Date/Time		12/15/2014 12:15:30		
Document File Status (FNM)		Successful		Seller/Servicer Number		123450000		
Lender Name		ABC Mortgage		Lender Loan Number		12345678		
Appraisal 1								
Original Submitted Date/Time		12/15/2014 12:15:10		Document Status		Not Successful		
Number of Resubmissions		0		Form Type		FNM 1004/FRE 70		
Last Submission Date/Time		12/15/2014 12:19:02		Appraised Value		\$475,000		
Subject Address		123 North Main Street NE, 101, Any Town, MD 20653		Date of Appraisal		12/11/2014		
				Supervisory Appraiser		Jane Jones MD / 00001		
Appraiser		John Jones MD/ 00002		Borrower Name		Tom Smith		
Comps		Comp Address			Adjusted Sales Price			
Comp 1		456 Maple Street, Any Town, MD 20853			\$425,000			
Comp 2		234 South Main Street, Any Town, MD 20653			\$450,000			
Comp 3		456 Vine Street, Any Town, MD 20853			\$485,000			
Message ID	Form Section	Form Field Name	Property Affected	Full Message Description	Severity	Override Request Reason	Override Decision Reason	Override Decision Date/Time
UCDP Basic Edit Checks								
202	N/A	N/A	N/A	Unverified appraiser license information	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
402	N/A	N/A	N/A	UAD compliance check failure (warnings only)	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
UAD Compliance Findings								
5154	Sales Comparison	Prior Sale Date	Subject	A prior sale was indicated within the past 3 years; therefore, the Date of Prior Sale/Transfer must be provided in mm/dd/yyyy format.	Warning	N/A	N/A	N/A



There will be no changes to the summary information or UCDP/UAD sections of the SSR.

Submission Summary Report (cont.)



Fannie Mae Proprietary Edit Findings								
Message ID	Form Section	Form Field Name	Property Affected	Full Message Description	Severity	Override Request Reason	Override Decision Reason	Override Decision Date/Time
FNM0175	Subject	Property Rights Appraised	Subject	The appraisal indicates that the property rights appraised are "Other". If the property rights are leasehold or fee simple, ensure that the appraiser corrects the data. In all other cases, the property is ineligible for delivery.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM0401	N/A	N/A	Comparable 1	The appraiser has reported materially different sales prices for Comparable 1 in different reports.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM0402	N/A	N/A	Comparable 1	The reported comparable sale price for Comparable 1 is greater than what has been reported by other comparables.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM0607	N/A	N/A	Comparable 1	The reported comparable sale price for Comparable 1 is less than what has been reported by other comparables.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM0607	N/A	N/A	Comparable 4	The GLA adjustment for Comparable 4 is smaller than peer and model adjustments.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM0797	N/A	N/A	Appraisal	The appraiser-provided comparables are materially different than the model-selected comparables.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM1000	N/A	N/A	Appraisal	The Collateral Underwriter Risk Score is 5 on a scale of 1 to 5 where 5 indicates highest potential collateral risk. A score of 999 indicates no CU Risk Score is available.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM1002	N/A	N/A	Appraisal	The appraiser-provided comparables are materially different than the model-selected comparables, increasing the risk of appraisal quality issues.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15
FNM1004	N/A	N/A	Appraisal	The appraiser-provided comparables are materially different than the model-selected comparables, increasing the risk of overvaluation.	Warning	Automated Override Request	Override Automatically Approved	12/15/2014 12:15:15

CU messages will appear along with remaining Proprietary Messages in ascending order by message number.

The CU Risk Score is message 1000 and contains the score in the message text.

The CU Risk Flags correspond with messages 1002, 1004, and 1006.

A severity level of "Warning" is assigned for all CU feedback.



CU is intended to be a supplement to – not a substitute for – lenders’ appraisal review process. Human due diligence is still necessary to determine appropriate course of action with the appraisal.

- ❖ Collateral Underwriter results – including the Risk Score – are used to inform Fannie Mae’s post-acquisition review process, but are not the final word on appraisal quality.
- ❖ CU may produce some false positives and false negatives. A high score does not necessarily mean an appraisal is “bad”, nor does a low score necessarily mean an appraisal is “good”. The same is true with individual messages.
- ❖ Lenders may choose to use the CU Risk Score to triage workflow and allocate resources. However, they must independently establish their own risk tolerance and policies regarding use of the score for this purpose.
- ❖ Risk Flags and messages identify factors contributing to high risk scores and aspects of the appraisal that may require further review. However, they do not impact the UCDP® submission status and are only warnings.
- ❖ “Lender Agents” (AMCs) will not have access to the CU User Interface, but should work with their lender clients to establish policies and procedures around response to CU findings.
- ❖ Only appraisals submitted on behalf of Fannie Mae’s pilot partners will have CU feedback in UCDP® and on the SSR during this early adoption period.

Lenders and AMCs may use the CU results to inform conversations with their appraisers, but should not make demands or provide instructions to the appraiser based solely on this automated feedback.





Collateral Underwriter™
by Fannie Mae

Related Links

Appraisers

Related Applications

Uniform Collateral Data Portal (UCDP)

Collateral Underwriter (CU) is a proprietary model-driven tool developed by Fannie Mae that provides an automated appraisal risk assessment to support proactive management of appraisal quality. Fannie Mae will make CU available in 2015 to provide transparency and help lenders more effectively and efficiently identify issues with appraisals.

About Collateral Underwriter

Collateral Underwriter Fact Sheet **updated**

OnDemand eLearning Course

Access the eLearning course below at your convenience, 24/7, for the same content provided in the live webinars.

Introduction to Collateral Underwriter

Upcoming Webinars

Course Title	Date & Time	Status
Introduction to Collateral Underwriter	Nov. 5 at 2 pm ET	Full

Collateral Underwriter Page

- Announcements, Notifications
- Live & eLearning Courses
- CU Checkpoint
- CU User Guide
- CU FAQ's

UCDP Page

- Release Notes
- Live & eLearning Courses
- UCDP User & Admin Guides
- UCDP & UAD FAQ's

UCDP

Register for UCDP

- Register as an approved lender to become an approved user
- Register as a correspondent to become an approved user
- Register as an agent to become an approved user

Clear Selection

LAUNCH APP

Related Links

Uniform Appraisal Dataset (UAD)
Uniform Mortgage Data Program (UMDP)



The Uniform Collateral Data Portal® (UCDP®) is a single portal through which lenders electronically submit appraisal reports for conventional mortgages delivered to Fannie Mae or Freddie Mac. Through UCDP, lenders can upload appraisal data and view edits and submission details.

Release Notes

UCDP Change Notification | Jan. 26, 2015 **new**

UCDP Change Notification | Dec. 7, 2014

Show All

User Help

Application Training

Submitting Appraisal Data Files to UCDP Tutorial
Using the Uniform Collateral Data Portal Tutorial

User Help

UCDP Overview
UCDP User Guide
UCDP User Guide for Fannie Mae Messaging
UCDP Lender Agent Administrator User Guide

Be sure to bookmark the CU & UCDP web pages:

Collateral Underwriter: <https://www.fanniemae.com/singlefamily/collateral-underwriter>

UCDP: <https://www.fanniemae.com/singlefamily/uniform-collateral-data-portal>