



FEDERAL HOUSING FINANCE AGENCY
Office of the Director

February 20, 2015

Mr. Peter J. Gallo
Real Estate Appraisers and Consultants
11121 Carmel Commons Boulevard
Suite 175
Charlotte, North Carolina 28226

Dear Mr. Gallo:

Thank you for your January 8, 2015 letter in which you expressed concerns about Fannie Mae's Collateral Underwriter (CU). CU is a proprietary, model-driven tool developed by Fannie Mae that provides an automated appraisal risk assessment. Fannie Mae is making CU available to Fannie Mae-approved lenders to provide transparency and to help lenders identify potential issues with appraisals prior to loan delivery. Fannie Mae does not require the use of CU by lenders; its use is voluntary.

CU provides a numerical risk score and messages that are meant to help a lender in its analysis of the appraisal report. Risk flags and messages identify risk factors and specific aspects of the appraisal that may require further attention. CU does not accept or reject appraisal reports or characterize an appraisal as "good" or "bad." The lender is not obligated to "clear" or "override" the CU messages. CU does not provide an estimate of value to the lender, nor does it make a credit decision.

CU's display of additional comparable sales considers the relevance of each potential comparable sale based on time, distance, and physical similarity. This selection is not based on relative risk or sale price of the comparable sale. Rather, CU considers under-valuation and over-valuation based in part on factors such as the relevance of the comparable sale chosen and whether or not the appraiser made appropriate adjustments.

The CU analysis results are to inform the lender's review of the appraisal report. For most appraisals, Fannie Mae does not instruct lenders to ask the appraiser to address any of the comparable sales provided by CU. In many cases, there may be no material difference between comparable sales selected by the appraiser and those returned by CU. Fannie Mae does not expect appraisals to only contain CU comparable sales. It is important that the lender analyze the relevance of sales and determine if the use of such sales would result in any material change to the appraisal report. If the lender determines that there would be no material change, there is no reason to ask the appraiser to make revisions. Fannie Mae expects CU to enable lenders to accept appraisals "as-is" with greater confidence.

There are two good reasons that CU is available only to approved Fannie Mae lenders and is not available to other industry participants, including appraisers. First, Fannie Mae's contractual relationship is with lenders. It is up to the lender to determine which appraisals they submit to the Uniform Collateral Data Portal (UCDP) and, ultimately, whether to sell a particular loan to Fannie Mae. It is also the lender's responsibility to underwrite the appraisal to determine whether the loan meets Fannie Mae requirements.

Second, making CU available to appraisers would not enhance appraiser independence because CU derives its data from existing appraisal reports. CU is an appraisal risk management tool and requires submission to UCDP; it is not based on entering an address and retrieving market data. Governing the appraisal process solely or predominantly by an appraisal risk management tool would undermine independence that results from the appraiser performing his or her independent market research and analysis and arriving at a value conclusion based on that analysis, judgment, and reconciliation of data.

Lenders have long been using automated products, checklists, and overlays to assist them in comprehensive appraisal reviews. Appraisers who make a good faith effort to provide accurate data, select appropriate comparables, make market-based adjustments, and give weight to the most relevant comparables should feel no significant negative impact as a result of the use of CU.

CU can both identify issues with appraisal reports and validate well-supported appraisal reports. The net result should be that lenders, appraisal management companies, and appraisers should not expect any significant increase in requests for corrections or revisions to appraisal reports.

A significant amount of CU information and training is available at no cost on Fannie Mae's CU webpage at: <https://www.fanniemae.com/singlefamily/collateral-underwriter>

I hope that you find this information helpful and responsive to your concerns.

Sincerely,

A handwritten signature in black ink, appearing to read "Melvin L. Watt", with a long, sweeping horizontal flourish extending to the right.

Melvin L. Watt