Introduction to Collateral Underwriter

Taking Appraisal Review to the Next Level

Course Overview

- Background

- What is Collateral Underwriter?

- Value

- Features and Benefits

- Appraisal Submission Overview

- Score and Message Summary

- Characteristic Features

- Roll-out Timeline

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- Preparation

Appraisal Data Evolution

| UAD | UCDP® | Proprietary Messaging | Current Initiatives | Coming Soon | Future State |

✓ **Data Standardization:** The Uniform Appraisal Dataset (UAD) standardized critical data points on the appraisal, facilitating appraisal analytics and messaging.

✓ **Electronic Data Capture:** The Uniform Collateral Data Portal ®(UCDP®) has collected over 14 million appraisals and over 20 million transaction records to date.

✓ **Real-Time Feedback:** Our first generation of appraisal feedback included rules-based messaging focused on data reasonableness, property eligibility and policy compliance.

✓ **Internal Use:** Along with extensive human due diligence, Collateral Underwriter ™ (CU ™) is used to inform Fannie Mae's post-acquisition QC process and our Appraiser Quality Monitoring initiative.

➢ **Lender Availability:** Availability of CU feedback through UCDP and roll-out of the CU web interface will begin in Q1 2015.

➢ **Desktop Underwriter® (DU®) Integration:** Soon after, CU feedback will be integrated into DU to provide a more holistic view of risk.

Collateral Underwriter is the latest addition to Fannie Mae's comprehensive suite of risk management tools available to customers.

What Is Collateral Underwriter?

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 (UCDP).

❖ The purpose of Collateral Underwriter is to identify appraisals with heightened risk of property eligibility or policy compliance violations, overvaluation, and appraisal quality issues.

❖ CU leverages an extensive database of property records, market data, and proprietary analytical models to analyze key appraisal components including data integrity, comp selection, adjustments, and reconciliation.

❖ Results of CU's automated appraisal analysis include the following:

- A comprehensive Risk Score on a scale of 1.0 (lowest risk) to 5.0 (highest risk)
- Risk Flags to identify factors contributing to high risk scores
- Detailed messaging to highlight specific aspects of the appraisal that may warrant further attention

❖ The CU web interface provides additional content and functionality to assist with deeper analysis of the appraisal.

❖ Fannie Mae utilizes CU as part of our ongoing appraisal quality and collateral risk management efforts.

Our objective is to share Collateral Underwriter externally to support more proactive management of appraisal quality.

Value

With the introduction of Collateral Underwriter, lenders will realize further benefits of our collective efforts to standardize and capture electronic appraisal data.

❖ **TRANSPARENCY:** Collateral Underwriter offers additional transparency to lenders by granting them access to the same appraisal analytics used in Fannie Mae's quality control framework.

❖ **QUALITY:** Appraisal feedback at point of appraisal submission allows lenders to proactively address potential valuation issues and improve overall manufacturing quality of loans delivered to Fannie Mae.

❖ **EFFICIENCY:** Segmenting appraisals by risk profile facilitates more efficient resource allocation and workflow management. At a transaction level, CU content may also prevent unnecessary correction requests to the appraiser.

❖ **CERTAINTY:** Integration with DU will provide a more holistic view of risk and more certainty to lenders.

Fannie Mae will make Collateral Underwriter available at <u>no charge</u> so lenders can take full advantage of the utility for a variety of quality control and risk management purposes.

Features and Benefits

CU leverages an extensive database of property records, market data, third party data sources, and proprietary analytical models to perform a comprehensive assessment of the appraisal.

❖ **ROBUST DATA:** UAD data collected through UCDP provides nationwide coverage, standardized formatting, and up-to-date sales activity.

❖ **MODEL-DRIVEN RESULTS:** Rather than rely on arbitrary guidelines, Collateral Underwriter produces market-specific, model-driven results.

❖ **ONE-STOP SHOPPING:** The web interface includes comparable sales data, configurable comp searches, local market trends, mapping, aerial/street-view imagery, public records, building permit data, all UAD/UCDP messaging and additional functionality to assist with review of the appraisal.

❖ **ADVANCED SEARCH FUNCTIONALITY:** Lenders can search their entire portfolio of appraisal submissions by risk profile, date, geography, loan purpose, property type, appraiser, etc. to easily create targeted review samples.

Dynamic functionality and extensive content empowers individual end users to apply their professional expertise and informs lenders' appraisal review, underwriting, and quality control processes.
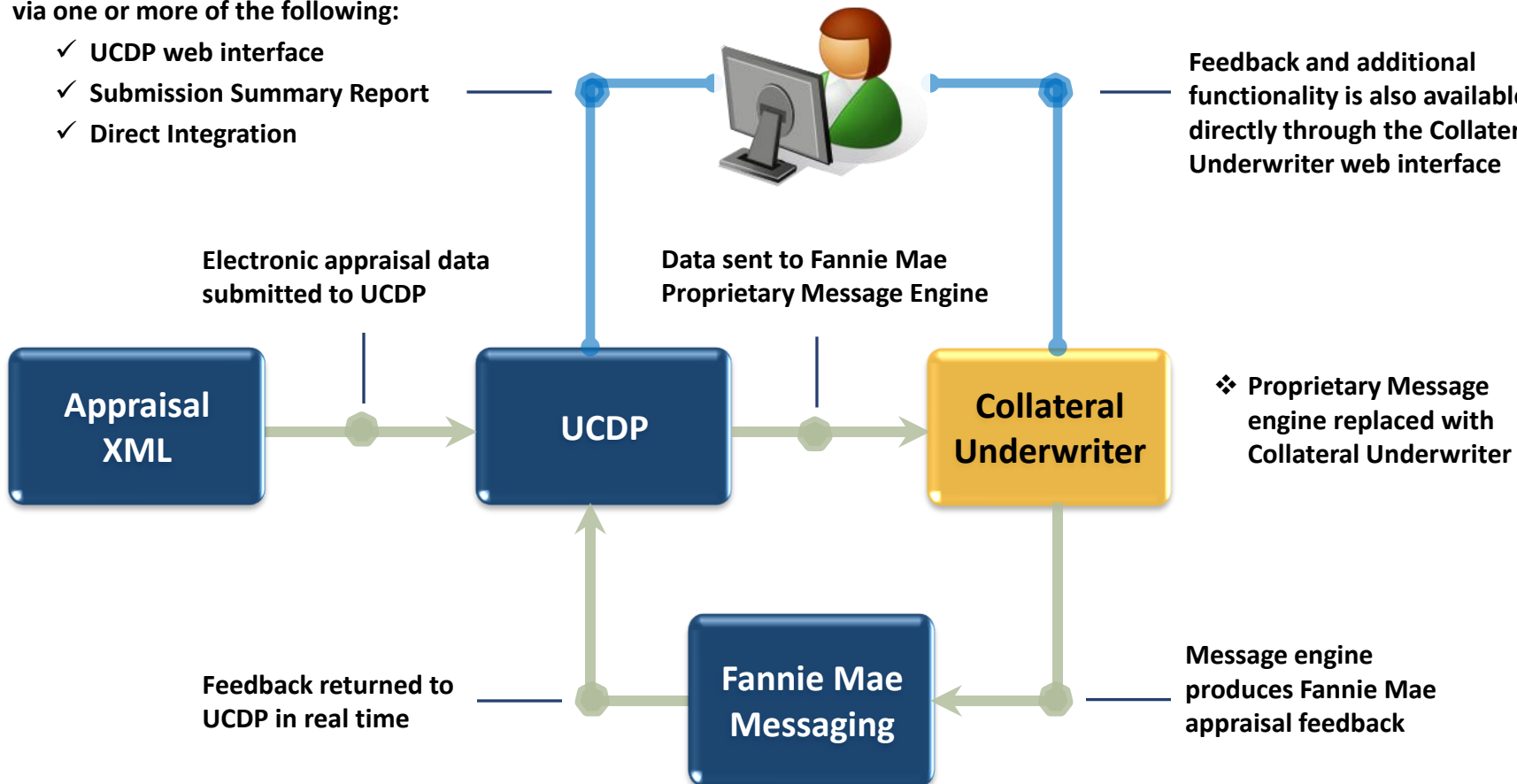
Appraisal Submission Process

Users will still be able to retrieve feedback via one or more of the following:

- ✓ **UCDP web interface**
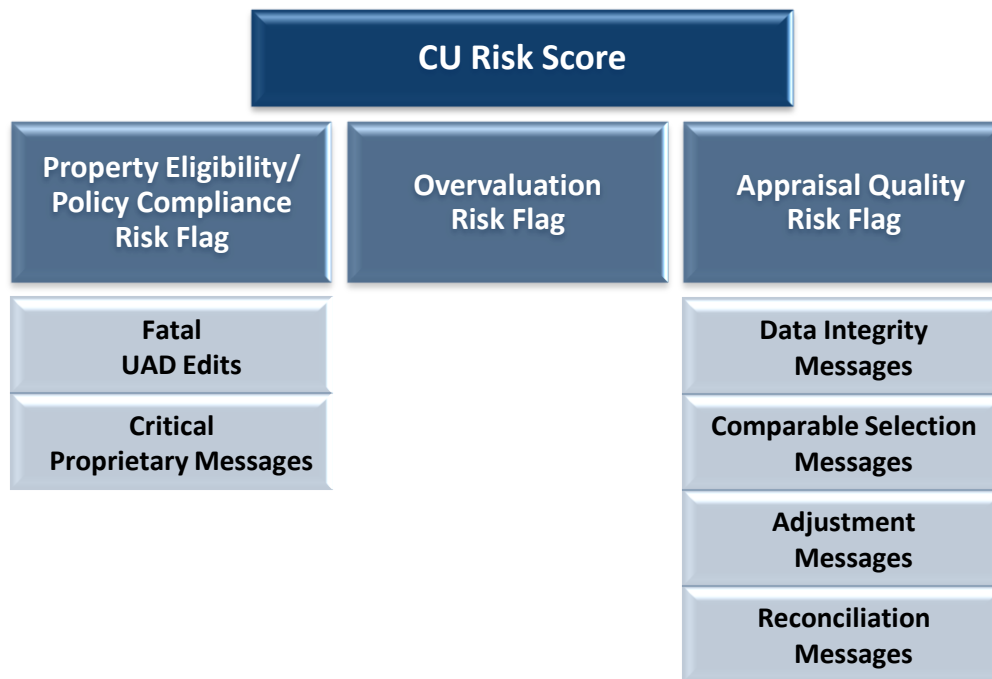- ✓ **Submission Summary Report**
- ✓ **Direct Integration**

Feedback and additional functionality is also available directly through the Collateral Underwriter web interface

Electronic appraisal data submitted to UCDP

Data sent to Fannie Mae Proprietary Message Engine

Appraisal XML → **UCDP** → **Collateral Underwriter**

❖ **Proprietary Message engine replaced with Collateral Underwriter**

Feedback returned to UCDP in real time

Fannie Mae Messaging

Message engine produces Fannie Mae appraisal feedback

CU results will be returned through UCDP just like our Proprietary Messages today with no registration or additional integration required. A dynamic web interface will also be available to registered lenders.

CU Risk Score and Messages Summary

Collateral Underwriter identifies appraisals with heightened risk of property eligibility or policy compliance violations, overvaluation, and appraisal quality issues.

CU Risk Score

Property Eligibility/ Policy Compliance Risk Flag
- Fatal UAD Edits
- Critical Proprietary Messages

Overvaluation Risk Flag

Appraisal Quality Risk Flag
- Data Integrity Messages
- Comparable Selection Messages
- Adjustment Messages
- Reconciliation Messages

- The score reflects CU's automated assessment on a scale of 1.0 (lowest risk) to 5.0 (highest risk).

- Risk flags identify factors contributing to high scores.

- Proprietary Messages and UAD Edits highlight potential property eligibility or policy compliance violations.

- Appraisals with heightened risk of over-valuation are identified, but no estimate of value is provided.

- Messages direct reviewers to specific aspects of the appraisal requiring further attention.

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

Appraisal Page

The main appraisal page includes a comparable sales map, messaging center, details for the appraiser-provided comparables, and links to additional information and functionality.

Comparable Sales Map

CU Score and Risk Flags

Message Center

Appraiser-provided comparables

Subject and comp characteristics

Comparable Rank

Datappraisal

Dataappraisal

The "Dataappraisal" displays the results of CU's comparable selection model. Appraiser-provided comparables are ranked along up to 20 model-selected sales in the subject market.

Appraiser-provided and model-selected comps

Sortable Column Headers

		Type	Address	Age	Lot	GLA	Bd	Bth	Bsmt t	Bsmt f	Pk	C	Q	V	L	Rd	GD	Date	Amount	Model	Rnk
	S	AL	XXXX E Mitchell Dr, ANYTOWN, USA 12345	65	7527	1138	2	1	0	0	1	4	4	N	N	2	.	2014-05	$214,000	.	0
	MC	AL	XXXX E Mitchell Dr, ANYTOWN, USA 12345	64	7841	1110	2	1	0	0	1	4	5	N	N	3	0.1	2013-10	$115,000	$129,488	1
	MC	AL	XXXX E Weldon Ave, ANYTOWN, USA 12345	62	8712	1130	3	1	0	0	1	4	4	N	N	2	0.23	2013-12	$150,000	$149,454	2
	MC	AL	XXXX E Clarendon Ave, ANYTOWN, USA 12345	64	7405	1090	2	1	0	0	1	4	4	N	N	2	0.46	2014-04	$145,000	$150,551	3
	MC	AL	XXXX E Weldon Ave, ANYTOWN, USA 12345	61	8276	1120	3	1	0	0	1	3	4	N	N	2	0.23	2014-03	$134,000	$124,446	4
	MC	AL	XXXX E Flower St, ANYTOWN, USA 12345	66	8712	1120	2	1	0	0	2	3	4	N	N	2	0.69	2014-04	$160,000	$141,441	5
	MC	AL	XXXX E Indianola Ave, ANYTOWN, USA 12345	65	7405	940	2	1	0	0	1	3	4	N	N	2	0.3	2014-02	$140,000	$150,243	6
	MC	AL	XXXX E Earll Dr, ANYTOWN, USA 12345	73	10454	1200	2	1	0	0	1	3	4	N	N	2	0.5	2013-09	$158,000	$140,529	7
	MC	AL	XXXX E Indianola Ave, ANYTOWN, USA 12345	64	6534	1070	2	1	0	0	1	3	4	N	N	2	0.38	2013-06	$130,000	$137,491	8
	AS 1	AL	XXXX E Pinchot Ave, ANYTOWN, USA 12345	67	8455	1014	2	1	0	0	0	3	4	N	N	2	0.56	2014-04	$215,000	$224,683	9
	MC	AL	XXXX E Amelia Ave, ANYTOWN, USA 12345	64	7841	1140	2	1	0	0	2	3	4	N	N	2	0.8	2013-10	$134,800	$121,247	10
	MC	AL	XXXX N 25th St, ANYTOWN, USA 12345	59	7405	1050	2	1	0	0	1	3	4	N	N	2	0.7	2013-10	$163,000	$161,435	11
	MC	AL	XXXX N 26th Pl, ANYTOWN, USA 12345	66	7405	1390	3	1	0	0	1	4	4	N	N	2	0.81	2013-11	$124,500	$112,310	12
	MC	AL	XXXX E Whitton Ave, ANYTOWN, USA 12345	66	7405	1320	3	1.1	0	0	1	3	4	N	N	2	0.81	2014-04	$150,000	$121,691	13
	MC	AL	XXXX E Flower St, ANYTOWN, USA 12345	63	7841	1120	3	1	0	0	1	4	4	N	N	2	1.44	2013-08	$160,000	$161,200	14
	MC	AL	XXXX E Catalina Dr, ANYTOWN, USA 12345	67	8276	1090	3	1	0	0	1	3	4	N	N	2	0.57	2013-12	$107,500	$110,037	15
	MC	AL	XXXX N 9th Pl, ANYTOWN, USA 12345	67	6534	1170	2	1.1	0	0	1	4	4	N	N	2	1.3	2013-08	$105,000	$108,822	16
	MC	AL	XXXX E Indianola Ave, ANYTOWN, USA 12345	64	8276	1060	3	1	0	0	1	3	4	N	N	3	0.6	2013-07	$199,500	$202,366	17
	AS 4	AL	XXXX E Cheery Lynn Rd, ANYTOWN, USA 12345	65	7275	1462	3	2	0	0	1	4	4	N	N	2	0.48	2014-03	$234,000	$187,540	18
	MC	AL	XXXX E Mariposa St, ANYTOWN, USA 12345	70	7405	1260	3	1	0	0	1	4	4	N	N	3	1.8	2013-12	$142,500	$147,330	19
	MC	AL	XXXX E Cheery Lynn Rd, ANYTOWN, USA 12345	73	7841	1140	2	1	0	0	0	3	4	N	N	2	0.42	2013-06	$157,500	$173,925	20
	AS 2	AL	XXXX E Mulberry Dr, ANYTOWN, USA 12345	64	7924	1404	3	2	0	0	2	4	4	N	N	2	1.45	2014-04	$225,000	$171,096	37
	AS 3	AL	XXXX	67	7854	1492	2	2	0	0	1	4	4	N	N	2	1.41	2014-03	$215,000	$164,014	41
	AL 5	AL	XXXX	64	7902	1246	3	1	0	0	1	4	4	N	N	2	0.29	2014-05	$215,000	.	.

Users can select/deselect model comparables

Configurable Comp Searches

Users can perform comparable searches by defining specific parameters for geographic boundaries, time frames, and physical characteristics.

Users can draw specific geographic areas from which to choose comps.

Users may also set specific parameters for comp physical characteristics and time frame.

Messages

The Message center includes the Collateral Underwriter score, flags and messages in addition to UAD/UCDP edits and remaining Fannie Mae Proprietary Messages.

CU Risk Score and Flags

Detailed data integrity, comp selection, adjustment, and reconciliation messages

Messages	Property Records	Comments

The Collateral Underwriter Risk Score is 5 on a scale of 1 to 5 where 5 indicates highest potential collateral risk.

There is a heightened risk of appraisal quality issues.

There is a heightened risk of overvaluation.

There is 1 adjustment message for this appraisal.

614 - [Comp 1] The condition adjustment is smaller than peer and model adjustments.

There is 1 comparable selection message for this appraisal.

797 - The appraiser-provided comparables are materially different than the model-selected comparables.

There are 5 data discrepancy messages for this appraisal.

404 - [Comp 2] The appraiser's reported GLA is different than the GLA reported by other appraisers.

421 - [Comp 3] The appraiser has reported a materially different quality in one or more appraisal reports.

423 - [Comp 3] The appraiser has reported a materially different condition in one or more appraisal reports.

There is 1 reconciliation message on this appraisal.

505 - The appraised value is above the range of unadjusted comparable sale prices provided by the appraiser.

There is 1 Fannie Mae Proprietary Message for this appraisal.

There is 1 UCDP Basic Edit Check for this appraisal.
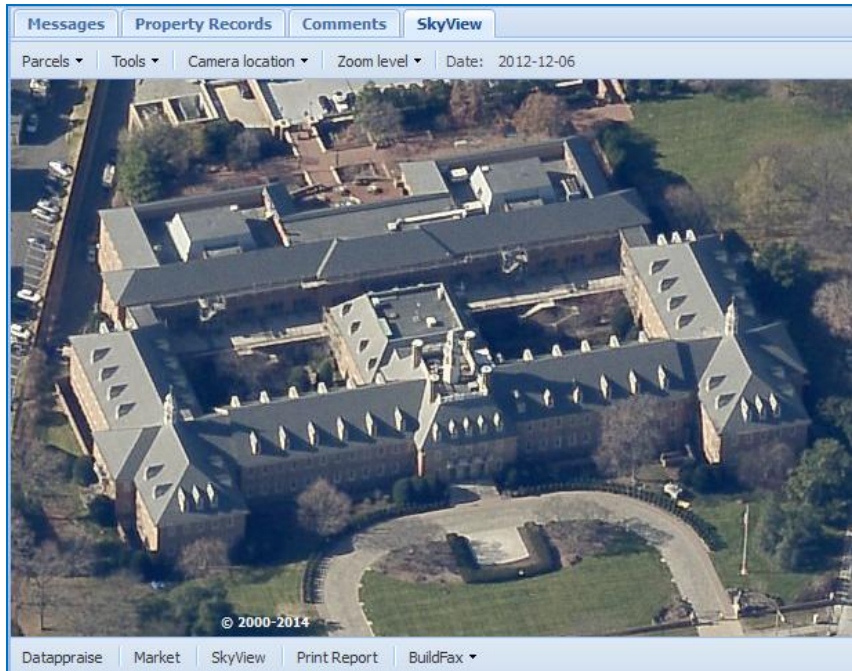
There are 3 UAD Compliance Edits for this appraisal.

UAD/UCDP® Edits and FNM Proprietary Messages

Aerial and Street-view Photography

Users can easily access aerial and street-view photography from the appraisal page with a simple point-and-click of the subject or any comparable on Collateral Underwriter's property map.


CU provides a birds-eye view of the subject and comparables. Users can easily move between properties, rotate camera angle, zoom-in/zoom-out, etc.

Street view imagery for the subject or any comparable can be accessed through the CU interface.

Local Market Trends
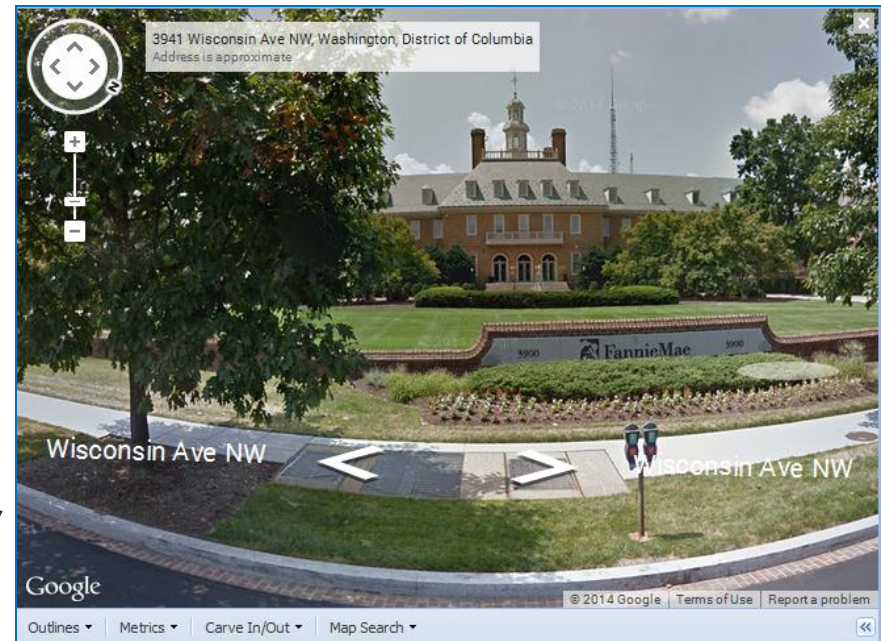
Collateral Underwriter's Market Trend and Heat Map functionality provides users detailed insight into local market trends.
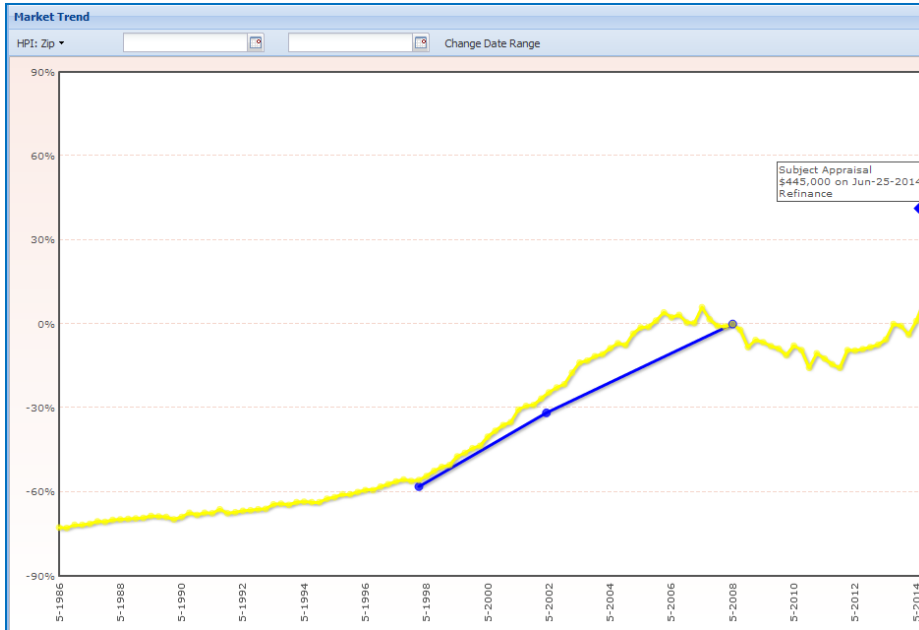
The Market Trend function shows market appreciation or decline relative to prior sales of the subject property.
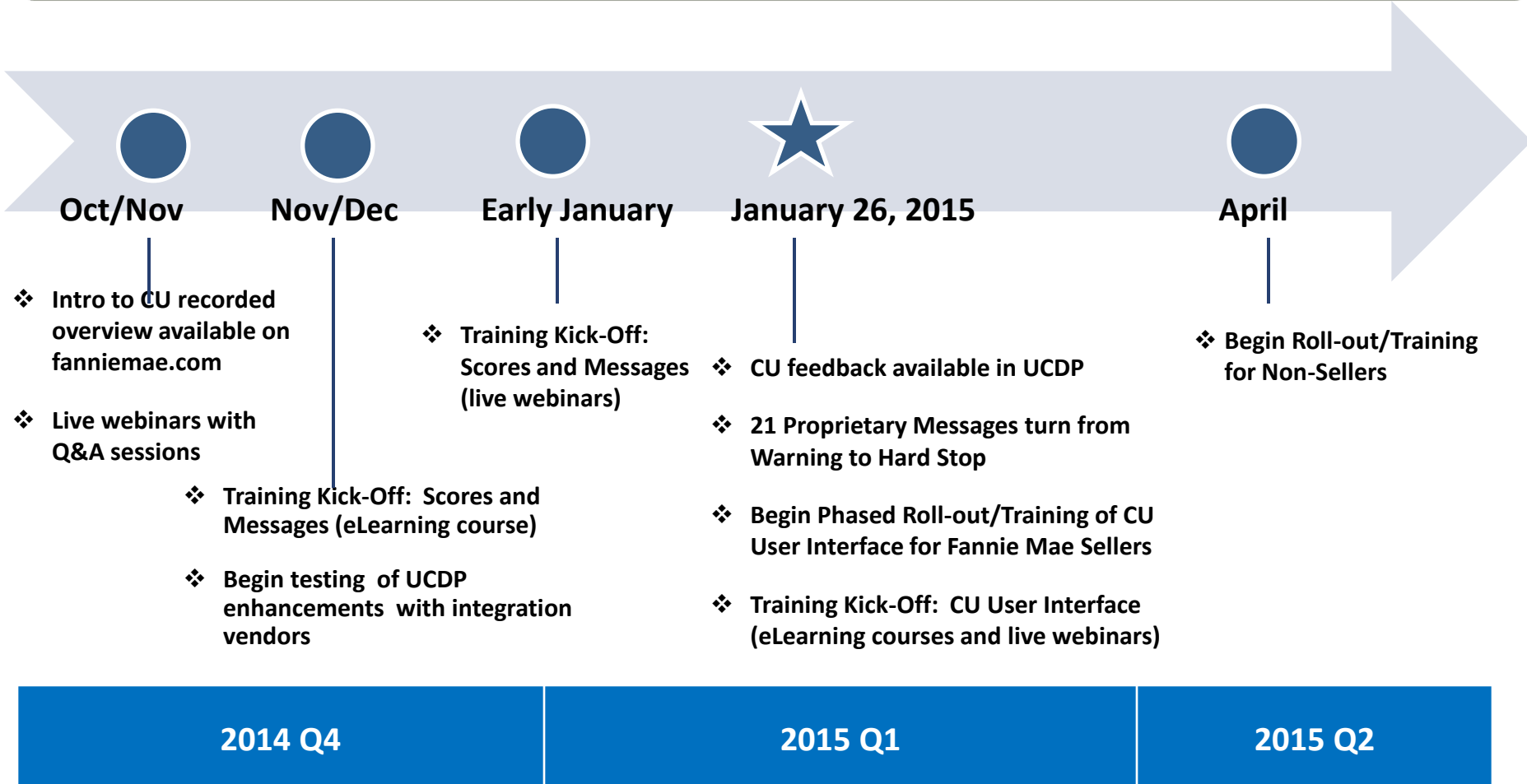

Heat Maps display Census Block Group-level statistics such as median sales price, price/GLA, median days on market, etc.
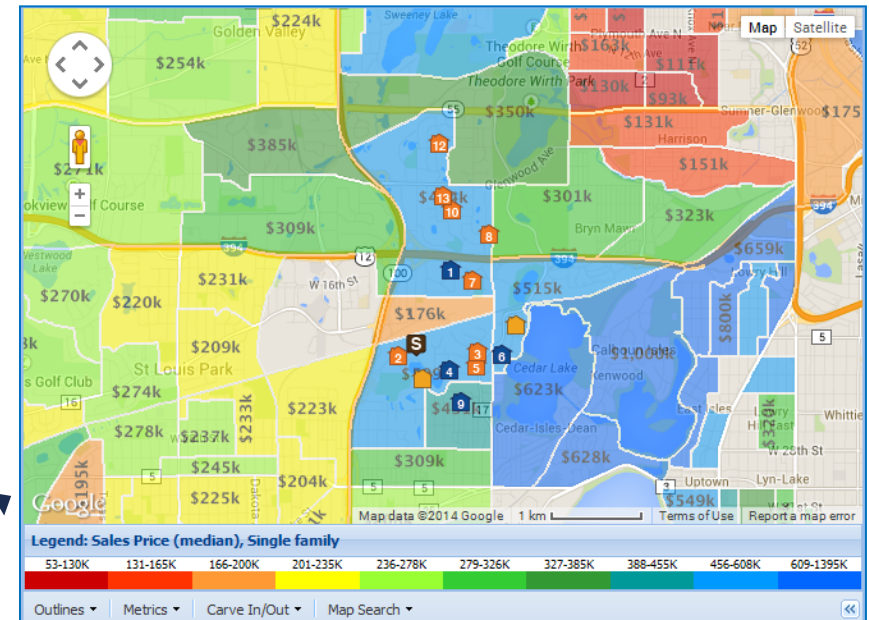
Roll-Out Timeline

CU feedback will be available through UCDP beginning January 26, 2015 with a phased roll-out of the web interface beginning at that time. Training will be available to support your implementation and use of CU.

Oct/Nov	Nov/Dec	Early January	January 26, 2015	April

Oct/Nov

❖ Intro to CU recorded overview available on fanniemae.com

❖ Live webinars with Q&A sessions

Nov/Dec

❖ Training Kick-Off: Scores and Messages (eLearning course)

❖ Begin testing of UCDP enhancements with integration vendors

Early January

❖ Training Kick-Off: Scores and Messages (live webinars)

January 26, 2015

❖ CU feedback available in UCDP

❖ 21 Proprietary Messages turn from Warning to Hard Stop

❖ Begin Phased Roll-out/Training of CU User Interface for Fannie Mae Sellers

❖ Training Kick-Off: CU User Interface (eLearning courses and live webinars)

April

❖ Begin Roll-out/Training for Non-Sellers

2014 Q4	2015 Q1	2015 Q2

Summary

Coming Soon

Fannie Mae will soon be making a series of important changes to our appraisal messaging.

UCDP Changes

- In December 2014, numerous Fannie Mae Proprietary Messages will be retired.

- In January 2015, the severity for 21 Proprietary Messages will become hard stops in UCDP and require lender action.

- Manual override or resubmission of a corrected appraisal will be required to obtain a Successful UCDP submission status.

- Lenders may receive different submissions status for Fannie Mae and Freddie Mac.

Distribution of Collateral Underwriter

- In January, CU risk scores, flags, and messages will be available in real-time through UCDP just like our Proprietary Messages today.

- Results will be visible on the Fannie Mae tab in UCDP, on the Submission Summary Report (SSR), and via direct integration.

- All Fannie Mae sellers, non-sellers, and their respective lender agents will have access to the CU risk score, flags, and messages.

- Lenders may also register for access to the web interface to support more in-depth review.

Details about the UCDP changes are already available on the Fannie Mae website and more information regarding the CU roll-out and training will be provided in the coming weeks.

Preparation

> With release of Collateral Underwriter on the horizon, lenders should start taking appropriate steps to prepare for implementation.

✓ **Understand your UCDP submission process and adjust as needed**

- Submission must take place *prior* to appraisal review if you wish to incorporate CU feedback into that process.
- *Staring in January, the severity of 21 Proprietary Messages will change to hard stops and require manual override or resubmission. As a result, UCDP submission status may vary between Fannie Mae and Freddie Mac (GSEs).*
    - Ensure you have a process in place to check UCDP submission status and associated messages from each GSE. Confirm that your systems are configured to capture status from each independently.
    - To ensure preparation for these changes, lenders should contact their lender agents and direct integration vendors for additional information on their implementation plans, timing, and testing availability.

✓ **Organize a team to focus on implementation**

- Document your appraisal review process and establish metrics around review times and resource utilization.
- Determine how, where, and by whom Collateral Underwriter can be used in your process.
- Identify subject matter experts and develop an internal training plan.

✓ **Focus on implementation**

- If you are a lender with correspondent channels, you should understand the availability and potential utilization of CU for Fannie Mae non-sellers and develop an implementation strategy for your correspondent channel.
- If your AMC submits to UCDP on your behalf and consumes GSE messaging, validate that the AMC has attended training and develop appropriate policies and procedures in regards to the CU results.
- If applicable, work with your direct integration solution providers to prepare for consumption of CU feedback.

✓ **Bookmark the CU web page and watch for training opportunities and additional resources**
    https://www.fanniemae.com/singlefamily/collateral-underwriter