

12,346 Appraisal Failures, Per Week

Every week 12,346 appraisals fail to pass the GSEs basic screening “review.” In this case the screening, or “review,” is performed by Fannie Mae and Freddie Mac’s new Uniform Mortgage Data Program (UMDP). These numbers comes from the recent report by the Federal Housing Finance Agency, Office of Inspector General (FHFA-OIG) so please don’t shoot the messenger here (In this case me).

Assuming there are 85,000 appraisers nationwide, 12,346 failures equates to around seven failed appraisals, per appraiser, per week. That is a sad figure. If appraisers can’t produce higher quality appraisals capable of passing the most basic computer screening, how can they justify being paid higher fees? Typically, higher prices are paid for higher quality products (think cars, diamonds, clothes, houses, office space, land). This appraisal quality issue is about to hit appraisers hard.

“Houston we have a problem.”

Some appraisal failure numbers based upon a six month period:¹

207,000	“Hard Stop Warnings” indicating that the appraiser’s license could not be “verified;” ²
56,000	Appraisals contained potential violations of appraisal underwriting requirements; ³
58,000	Alerts indicating that “no property value could be provided” or the value was in question; ⁴
321,000	Total appraisal failures over a six month period, or 12,346 failures per week.

Not to panic - yet.

Some of the failures were due to “computer issues” but others are appraiser issues. Currently, there are approximately 25 different types of appraisal “failures” reported by the system and not everything is a big deal. Many failures are formatting issues or missing information. However if appraisers can’t remember to fill in information or use the correct format or code, what does that say about the rest of the report? In our experience reviewing appraisals, missing information, spelling errors, formatting problems or, inaccuracies are usually indicators of more serious failures.

A sampling of appraisal failures.

- Inconsistencies between the appraisers license and information contained in the ASC database (misspelled names, incorrect renewal dates, etc.);
- Revoked or suspended licenses (this can also be failure to renew by expiration date);
- AVM data indicates the appraised value maybe in excess of the neighborhood;
- Appraiser failed to comment on market trends even though there were indications of negative market trends;
- Failure to obtain a 442 on appraisals made “subject to” completion;
- Inconsistent use of quality and condition ratings;
- Failure to report detrimental conditions;
- Failure to accurately report on items that may impact value;
- Failure to make adjustments when the reasons for the adjustment are obvious;
- Failure to support adjustments;
- Appraiser failed to obtain or analyze a full copy of the purchase and sale agreement.

¹ FHFA-OIG Audit Report AUD-2014-008.

² Actual was 414,000 in 12 months.

³ Six month time period.

⁴ 29,000 measured during a 3 month period.

How could this be?

Have you ever wondered how bad appraisers stayed in business? Why loans were made using defective appraisals and nobody went to jail? If there were so many failures, how is it that appraisers haven't heard back from the lenders or GSEs?

Well, that's simple: It seems that when issues or failures were discovered, the GSE's wizz-bang computer simply allowed the flawed reports to be used for lending purposes. In other words, the GSEs **overrode** and **ignored** the problems. This single item allows bad appraisers to flourish and the rest of us scratching our heads.

Quotes from the OIG report:

"Freddie Mac purchased over 4,000 loans, valued at approximately \$1.1 billion, despite indications that the appraised values may be excessive for the local market." (And they did this without questioning the appraiser)

"Fannie Mae purchased over 56,000 loans, valued at \$13 billion, which may have contained potential violations of underwriting requirements."

"In addition, 29,000 out of 135,000 (21%) appraisals uploaded into the portal generated one of Freddie Mac's proprietary warning messages alerting that either no property value could be provided or the value of the property was in question. Despite these alerts, Freddie Mac purchased all of the loans for approximately \$6.7 billion.."

"Fannie Mae did not require lenders to explain or resolve potential problems..."

So now we know - Quality didn't count.

Now for the pain.

Prior to 2013, Fannie Mae reviewed a **small fraction** of the loans it purchased each year. Numerous bad appraisals slipped through the system. That has changed. Starting now, quality will mean something - your job.

Combine findings from the OIG, the new Appraisal Quality Monitoring (AQM) initiative along with the existing UMDP/UAD system, and the GSEs will be required to analyze **every single appraisal** before it allows the loan to fund. 100% "review" requirement on every appraisal. Each week 12,346 "failed" appraisals will be "hard stopped," fatal warnings issued and deficiencies questioned. Missing information must be added to the appraisals and questions regarding consistency and accuracy answered. The lenders, or their agents, will contact the appraisers and require changes before the loan will close. The speed at which appraisals are processed will slow down. Lenders are going to demand that appraisals are delivered sooner, so they will have more time to cure the anticipated problems before the closing date. Lenders, or their agents, are going to ask for proof that the appraiser is who he says he is (prevent ID theft by unlicensed people). Appraisers certifications are going to be matched to the property type and state in which the property is located (appraisers and review appraisers). More time spent on appraisals after they are delivered.

Solutions.

Appraisers must understand the 18 most common reasons for appraisal rejections. Have a clear understanding of the rating definitions for quality and condition. Improve the accuracy of the information contained in the appraisal. Accuracy of the information, not just the value. Require lenders to provide a complete and fully executed copy of the purchase and sale agreement (this is vital). Understand how to determine adjustments. Not just "feel" or "my opinion says the adjustment is".... but determine, through evidence, what the adjustment should be.

Appraisers who provide defective or inconsistent work will be black listed or placed on “100% review” list (slow death by starvation).

Appraisers need lots of training.....good training about the issues that the UAD and AQM systems are going to find. Life is changing. Train up or the AQM system will toss you out.

We have and are creating numerous Webinars and a live seven hour CE classes for the appraisers that want to stay in business. If you would like our help, reach out to us. We are trying to help educate appraisers so that the new “wizz-bang” computer won’t hard stop your appraisals.

I’m trying to keep you safe out there.

Richard Hagar, SRA