

Understanding New Appraisal Regulation in 2014



Conducted for VMG Clients

January, 2014

Presented by

Vicky Thompson **President and Chief Executive Officer**



Vicky holds over 30 years of valuable professional expertise within the mortgage and appraisal industries. She has been featured in the Wall Street Journal, Atlanta Business Chronicle, Inc Magazine, and has acquired several article placements in Georgia Real Estate Magazines. She has been honored by the YWCA Northwest Georgia as a “Woman of Achievement” and is the past president of the Georgia Real Estate Fraud Prevention and Awareness Coalition. Additionally, she is an active member of several industry organizations which include: Cobb Executive Women, Cobb Chamber of Commerce, American Business Women’s Association, YWCA Academy of Women Leaders, National Association of Professional Mortgage Women, Georgia Bankers Association, Georgia Mortgage Bankers Association, National Association of Appraisal Management Companies, Southeast Credit Union Real Estate Networking.

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Ginger Lord, Senior Vice President, Quality Assurance & Training



Ginger is responsible for the oversight, management and development of the residential and commercial quality assurance reviewer staff. Ginger also develops and delivers or oversees all staff training, from new-hire orientation to specific professional development training. In addition, she develops custom training programs for clients upon request.

She began her career by spending eight years in the real estate franchising area for two, national real estate franchisors and then gained 15 years of experience in the appraisal profession in areas such as residential appraising, residential appraisal review and quality control. Ginger spent most of her appraisal career in the commercial and eminent domain appraisal segment. She has also previously served as Vice President of quality control for Priority Appraisal Services, one of the largest residential appraisal firms in the metropolitan Atlanta area. She is as a Candidate for Designation by the Appraisal Institute.

Natalie Thompson

Vice President, Residential Quality Assurance



Natalie supervises and regulates a team of quality assurance reviewers . She is a certified appraiser in 7 states and has experience reviewing appraisal reports for compliance with USPAP, Fannie Mae and Freddie Mac and completing REO, asset or other complex assignments.

Natalie began her career at Priority Appraisal Services and then joined VMG as a reviewer. From there, she held a position as a lead reviewer before becoming vice president of the residential department. Natalie is committed to community organizations, as well. She is involved in the Juvenile Diabetes Research Foundation (JDRF), a speaker for the YWCA, and a member of the National Association of Professional Mortgage Women (NAPMW).

USPAP

USPAP – The *Uniform Standards of Professional Appraisal Practice* is a document that serves as quality control standards for the development and report of appraisal reports and all appraisal related activities.

More detail about USPAP changes for 2014-2015 may be obtained here: [USPAP 2014 – 2015 Part I](#) and [USPAP 2014 -2015 Part II](#)

USPAP; Report Types

Prior version of USPAP defined 3 types of reports:

- Restricted Use
 - Summary
 - Self-Contained
- 

2014 defines only 2 type of reports:

- Appraisal Report
- Restricted Appraisal Report

Fannie Mae UAD & UCDP Changes

- On January 26, 2014, Fannie Mae and Freddie Mac (the GSEs) will be implementing the second phase of the conversion of current Uniform Appraisal Dataset (UAD) compliance warning edits to fatal UAD edits in the Uniform Collateral Data Port (UCDP), as outlined in the November 2013 *UCDP Release Notification and UAD Update*.
- The second phase includes the following data fields:
 - Quality of Construction Rating
 - Location Rating
 - View Rating
 - Condition Rating
- If an appraisal submitted to UCDP receives one or more fatal UAD edits, Hard Stop 401 (UAD Compliance Check Failure,) a “Not Successful” status will be issued. If the appraisal does not receive a “Successful” status in UCDP, the loan will not be eligible for delivery to either GSE.

Fannie Mae’s Lender Letter on this topic may be accessed here: [Fannie Mae Lender Letter Appraisal Quality](#)

Fannie Mae's Quality Control Process

- Monitoring Appraisers' Quality of Work
- Noting minor inconsistencies found
- Noting more egregious issues found
- They are now keeping a list of appraisers under 100% review or work rejected all together
- List of appraisers under review or their work being is being rejected

Accuracy & Consistency

- Fannie Mae is now identifying certain inaccuracies and inconsistencies in appraisals. Data accuracy issues include, but are not limited to, instances where the same property is represented in different ways in multiple appraisal reports.
- Fannie Mae is reviewing for patterns of discrepancies and inconsistencies related to property characteristics, such as GLA, sales price, room count, lot size, condition, quality ratings, view & location ratings, etc.

Accuracy & Consistency – Example

An appraiser used the same property and sales transaction as a comparable sale across multiple appraisals. In one report, the appraiser showed a sale price of \$400,000 for a property with 2,354 square feet of GLA. In 10 other reports the appraiser listed the sale price of the same property at \$375,000 and the size at 2,034 square feet. Those 10 other reports were consistent with Fannie Mae's verification of public records, as well as sale price and square footage reported in 13 appraisals done by other appraisers that utilized the comparable sale. Fannie Mae's *Selling Guide* requires appraisers to report property data accurately and consistently.

Accuracy & Consistency – Example 2

An appraiser assigned a condition rating of C4 to a property on a specific transaction. The same appraiser used the same property as a comparable sale in a subsequent appraisal report and assigned the property condition rating of C3. Fannie Mae requires the appraiser to consistently report the physical characteristics of the property from appraisal to appraisals when referencing the same transaction. The Uniform Appraisal Dataset (“UAD”) mandates that rating selections should be on an “absolute” basis and not a “relative” basis. The rating should not change when a property is compared to other properties except in rare case when more accurate property data become available.

Appraiser Monitoring & Lender Communication

- Fannie Mae is developing a number of processes to provide information to lenders and appraisers regarding the quality of appraisals submitted through UCDP;
 1. They will provide information directly to appraisers whose appraisal reports exhibit a pattern of minor inconsistencies, inaccuracies, or data anomalies. The intent and expectation is for training and educational purposes, and to provide them with an opportunity to improve their work. Future reports will be monitored from those appraisers.
 2. A process is also being developed that will identify appraisers whose reports exhibit more egregious issues. They will contact the appraiser directly and the lender that delivered the loan(s) informing them that either 100% of the loans submitted with appraisals from the identified appraiser will be reviewed in the post-purchase file review process – or – that Fannie Mae will no longer accept loans with appraisals completed by the specified appraiser.

Appraiser Monitoring & Lender Communication

3. All approved sellers and servicers will receive access to the list of appraisers whose appraisals are subject to 100% review or whose appraisals are no longer accepted by Fannie Mae.

Consumer Financial Protection Bureau

**T r u t h I n L e n d i n g A c t Higher-Priced
Mortgage Loans Appraisal Rule.**

Effective January 18, 2014

The Appraisal Rule

For loans with interest rates above a certain threshold(s), Section 1026.35 in Regulation Z should be consulted. **When you originate a higher-priced first-lien or subordinate –lien loan covered by the Higher-Priced Mortgage Loan (“HPML”) Appraisal Rule, you must:**

- Use a licensed or certified appraiser who certifies that the appraisal complies with USPAP and FIRREA of 1989, as amended, 12 U.S.C. 3331 *et seq.*, and any implementing regulations.
- Have the appraiser physically visit the property and view the interior and produce a written appraisal report.
- Obtain additional appraisal at your own expense if the property’s seller acquired the dwelling within the past 180 days and is reselling for a price that exceeds certain thresholds, which are detailed in Section 2 of the TILA Appraisal Rule guide.
- Provide a disclosure within three business days of application explaining the consumer’s rights with regard to appraisals.
- Give customers free copies of the appraisal reports performed in connection with the loan at least three days before consummation of the transaction.

Qualified vs. Non-Qualified Mortgages

HPML's that meet Qualified Mortgage standards in section 1026.43(e) of Regulation Z are exempted from the HPML Appraisal Rule. Therefore, you need to comply with the HPML Appraisal Rule only if you originate HPML's that are not Qualified Mortgages.

About the HPML Appraisal Rule

When you originate HPML's, you must:

- Disclose to consumers within three business days after receiving the consumers' applications that they are entitled to a free copy of any appraisal the creditor orders and also can hire their own appraiser at their own expense for their own use.
- Obtain a written appraisal performed by a certified or licensed appraiser in conformity with USPAP and Title XI of FIRREA and its implementing regulations.
- Have the appraiser visit the interior of the property and provide a written report.
- Deliver copies of appraisals to applicants no later than three business days before consummation.

****Additional requirements may apply in certain case when a home is being resold within 180 days of its acquisition by the seller above certain price thresholds.*

Qualifying for Safe Harbor

You can gain safe harbor protection by following **four steps:**

First, when ordering the appraisal, order one from a certified or licensed appraiser in the state where the property is located and require the appraiser to follow USPAP and Title XI of FIRREA and any implementing regulations in effect at the time the appraiser signs the appraiser's certification.

Qualifying for Safe Harbor

- **Second**, you must confirm that the appraisal:
 - > Identifies the creditor who ordered the appraisal, the property, and the interest being appraised;
 - > Indicates whether the appraiser analyzed the contract price;
 - > Addresses conditions in the property's neighborhood;
 - > Addresses the condition of the property and any improvements to the property;
 - > Indicates which valuation approaches the appraiser used and includes a reconciliation if the appraiser used more than one valuation approach;
 - > Provides an opinion of the property's market value and an effective date for the opinion;
 - > Indicates that the appraiser performed a physical property visit of the interior of the property;
 - > Includes a certification signed by the appraiser that the appraisal was prepared in accordance with the requirements of USPAP and Title XI of FIRREA and any implementing regulations.

Qualifying for Safe Harbor

Third, check the status of the appraiser:

> Use the national registry to verify that the appraiser is certified or licensed in the state where the property is located on the date he signed the appraiser's certification. You may check appraiser licensing information at www.asc.gov.

Fourth, keep in mind that the safe harbor applies only if:

> You do not have actual knowledge contrary to the facts or certifications contained in the written appraisal.

You may outsource your appraisal review to a third party, but you will remain responsible for complying with the rule. If you rely on the third party and the third party does not follow the rule, then you will be responsible for the violation.

Appraisal Rule for HPML's and the Equal Credit Opportunity Act Valuations Rule

- An applicant can waive the deadline under the ECOA Valuations Rule and elect to receive copies of the appraisal at closing, whereas the applicant cannot waive the three-business-days-before-closing deadline under TILA Appraisal rule.

How can I deliver the appraisal copies to applicants?

- Send the copies to the applicant's last-known physical or electronic address. Delivery occurs three business days after you mail or transmit the copies, or whenever you have evidence indicating the applicant received the copies.
- For electronic delivery, you must obtain consent from the applicant under the Electronic signatures in Global and National Commerce Act (E-Sign Act). You will find information about E-Sign online at <http://www.fdic.gov/regulations/compliance/manual/pdf/X-3.1.pdf>
- Under regulation Z, for purposes of the deadlines for delivering the initial disclosure on appraisals and also for delivering a copy of the appraisal, a "business day" is defined as when "the creditor's office are open to the public for carrying on substantially all of its business functions."

What if there is more than one applicant?

- If there is more than one applicant, you are required to give a copy of the disclosure and appraisal to only one of the applicants.

What are my obligations if the loan does not close?

- If you determine that you are not going to close a loan, you still have to give the applicant appraisal copies within 30 days after you determine the transaction is not going to close.

How are “flips” defined?

- More than 10% price increase if the seller acquired the property in the past 90 days.
- More than 20% price increase if the seller acquired the property in the past 91-180 days.

What do I have to do if the property is a “Flip” purchased with a covered HPML?

- When a consumer uses a covered HPML to purchase a flipped property, additional requirements apply in some cases. If the price increase exceeds specified amounts, you must obtain an additional appraisal from a different certified or licensed appraiser unless an exemption applies.
- You cannot charge the consumer for the additional appraisal.
- The additional appraisal must meet the same requirements as the first and also must analyze:
 - The difference in the original sales price and the subsequent sales price
 - Changes in market conditions
 - Property improvements the seller made

If, after reasonable diligence, you cannot tell if the property was subject to a prior acquisition in the last 180 days, and you cannot tell whether the price difference falls below the applicable threshold described, and no exemption applies, then you must obtain an additional appraisal.

Can the additional appraisal be done by an appraiser from the same firm that did the first appraisal?

- The HPML Appraisal rule requires that the two appraisals be conducted by appraisers who are independent of each other. If the two certified or licensed appraisers are affiliated – for example, they work for the same appraisal firm – then whether they have conducted the appraisal independently of each other must be determined based on the facts and circumstances of the particular case known to the creditor.

The Guidebook for the Appraisal Rule may be accessed here: [Appraisal Rule TILA HPML Appraisal Implementation Guide Jan 2014](#)

Requirements for Manufactured Homes

Starting on July 18, 2015, loans secured by an existing manufactured home and land will be subject to the Dodd-Frank Act's appraisal requirements. The agencies have adopted a temporary exemption of 18 months, until July 18, 2015 to allow lenders to make adjustments.

- Loans secured by a new manufactured home and land will be exempt only from the requirement that the appraiser visit the home's interior.
- Transactions secured by an existing (used) manufactured home and land will not be exempt from the rules.
- Loans secured by manufactured homes without land, creditors will be allowed to use other valuation methods without an appraisal, such as using third-party valuation services or "book values."

VMG client's enjoy the added benefit of demonstrated inclusion of women-owned business in their mix of service providers. The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, specifically Section 342, by the Office of Minority and Women Inclusion, encourages financial service companies to utilize women-owned businesses.



Qualified Review

Reviewers must be independent of the transaction and “insulated” from any influence by the loan production staff. Reviewers should possess the requisite education, expertise and competence to perform the review commensurate with the complexity of the transaction, type of real property and market.

Thank you for joining us
today!



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Patrick McMillen



- Patrick McMillen is COO at Valuation Management Group, LLC (VMG). In this role, he is responsible for the overall operations and risk functions at the company, including such areas as IT, HR, Internal Audit and Business Development. He is also focused on strengthening the risk management processes throughout the company, mainly working on regulatory reform changes (at state and federal levels) affecting banks, lenders and appraisal management companies.
- Mr. McMillen worked as a commissioned bank examiner for the OTS and the OCC for over 13 years, serving as both a consumer compliance and safety & soundness examiner. From there he entered the private sector and worked as a chief risk officer for several banks in the Atlanta area, including Riverside Bank, Synovus Financial Corporation, Silverton Bank, and The Brand Banking Company. He has a BS Degree in Finance from Murray State University in Kentucky. He has served on the Board of Directors for the Georgia Affordable Housing Corporation and the Gwinnett County Habitat For Humanity.

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