



## SELLER/SERVICER RISK SELF-ASSESSMENT

# Appraisal Management and Appraiser Independence Requirements

Sellers/servicers\* are responsible for obtaining appraisals in compliance with Fannie Mae's requirements. They must have written policies and procedures to comply with the Appraiser Independence Requirements (AIR), including, but not limited to, adequate training and disciplinary rules on appraiser independence. Additionally, sellers/servicers must ensure that any third parties, such as appraisal management companies or correspondent lenders, used in conjunction with the sale and delivery of a mortgage loan to Fannie Mae, are also in compliance with the AIR. (\*AIR does not apply to appraisals performed for loss mitigation purposes.)

## IN THIS DOCUMENT

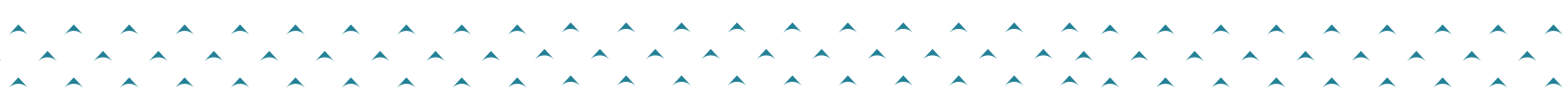
- Self-Assessment Checklist
- Common Findings and Documentation

## RESOURCES

- *Selling Guide* B4-1.1, General Appraisal Requirements
- *Selling Guide*, Private Transfer Fee Covenants
- Find an Appraiser (license check)
- Appraiser Independence Requirements (AIR)
- AIR FAQs

## ONE SELLER/SERVICER'S STORY

Appraisals are among the most time-consuming parts of the loan origination process, and are also a source of risk. With that in mind, we want to take a fresh look at our appraisal management processes to improve efficiency and be sure we're managing risk effectively. We know there are Appraiser Independence Requirements that we must comply with and want to get it right, but it's been awhile since we looked at that. How can we check our compliance?



## Self-Assessment Checklist **REQUIRED**

### APPRAISAL MANAGEMENT AND APPRAISER INDEPENDENCE REQUIREMENTS (AIR)

- Selection of qualified appraisal services providers (appraisers and appraisal management companies) in accordance with Fannie Mae requirements, including the Appraiser Independent Requirements (AIR).
- Ensuring employees of sales and loan production are restricted from the appraisal process (which includes ordering appraisals and/or communicating with the appraiser).
- Safeguards in place to ensure no employee, director, agent of the seller, or any third party acting on behalf of the seller influences the ordering, development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or in any other manner.
- If originating broker loans, have established controls in place to prevent the mortgage broker from selecting from an approved appraiser list or an approved appraisal management company (AMC) list.
- Maintaining an approved AMC list and/or maintaining an approved appraiser list and reviewing the appraiser's credentials to ensure they are currently licensed in the state of operation.
- Managing the distribution of appraisal assignments in compliance with AIR.
- Providing a copy of the appraisal to the borrower(s) or obtaining a signed waiver at least three days prior to closing.
- Ensuring transferred conventional appraisals are ordered in adherence to AIR.
- Ensuring that assigned appraisers have the active credentials and appropriate license level to complete appraisal assignments based on complexity and transaction amount.
- Ensuring the appraiser has used sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not explicitly covered by Fannie Mae policy.
- All appraisals are successfully submitted to Fannie Mae through the Uniform Collateral Data Portal® (UCDP®) prior to loan delivery.
- Continually evaluating the appraiser's work through the quality control process.
- Dedicated staff/department responsible for appraisal quality.
- If using an AMC, a formal oversight process to monitor the outcomes (including defects) of work produced.
- Monitoring the Fannie Mae Appraiser Quality Monitoring (AQM) list.
- Comparing potential new appraisers to in-house exclusionary list, other investor exclusionary lists, and the Fannie Mae AQM list.
- Referral of appraiser misconduct to the applicable state appraiser certifying and licensing agency or other relevant regulatory bodies.
- Reporting fraudulent appraisal practices to the Mortgage Asset Research Institute (MARI), Fannie Mae, The Appraisal Foundation, and state and/or local regulatory authorities.

## APPRAISAL MANAGEMENT AND APPRAISAL INDEPENDENCE REQUIREMENTS (AIR) (CONTINUED)

- Process to validate the property condition has not materially changed in areas identified as disaster areas and process to resubmit loan case files to Desktop Underwriter® (DU®).
- Escalation process to review appraisals with high Collateral Underwriter® risk scores (4 or 5 on the scale of 1 to 5, with 5 being the riskiest).
- Policies and/or procedures through which the seller ensures that loans it delivers to Fannie Mae, whether or not they were originated by the seller, are not secured by properties encumbered with a private transfer fee, which is unacceptable under Fannie Mae's requirements.

### ADDITIONAL CHECKLIST ITEMS

### RECOMMENDED

- Regular meetings are held to discuss and review reporting around monitoring and management of appraisers and AMCs.
- AMCs have a process in place to track changes in appraisal values after reports are submitted, and to track incoming calls/requests to ensure they are not from sales or production staff.
- Training is provided to loan production staff on AIR compliance.
- Process in place to query assigned AMC/appraisers to ensure they have not received calls and/or requests from employees of sales or production.
- Monitoring employees of sales or production to ensure they are not contacting the AMC/assigned appraiser.
- In-house and investor appraiser exclusionary lists are available to all staff.
- Established process ensures clear guidance is provided to all management and staff involved in the appraisal/collateral review process and the use of Collateral Underwriter.
- Fannie Mae AQM list is applied as part of the loan-level underwriting/appraisal review process. Using this list during the post-closing QC audit process will help to minimize appraisal/appraiser deficiencies/findings.
- A formal reporting process to ensure enforcement of the AIR policy by avoiding unauthorized contact by employees with AMCs and appraisers, which enables senior management to monitor employee compliance.
- Procedures to address Collateral Underwriter feedback: risk score, flags, and messages.
- A process/procedure to prevent closing loans with appraisals completed by appraisers who have been suspended/terminated and/or not approved.

## Common Findings and Documentation

### MORTGAGE ORIGINATION RISK ASSESSMENT (MORA) AND SERVICER TOTAL ACHIEVEMENT AND REWARDS (STAR)

Fannie Mae conducts regular reviews to evaluate compliance with our guidelines and assess operational risks. Reviews are conducted by a team that operates independently of customer account relationship management in Fannie Mae's single-family mortgage business. A Mortgage Origination Risk Assessment (MORA) or Servicer Total Achievement and Rewards™ (STAR™) review is intended to be a joint activity conducted by the review team with active participation of your organization.

The **common findings** and **required documentation** listed below are specific to the topic of this risk self-assessment, Appraisal Management and Appraiser Independence Requirements.

#### COMMON FINDINGS

- The seller/servicer does not have policies and procedures in place to ensure compliance with the Appraiser Independence Requirements.
- The seller/servicer's Appraiser Independence Requirements policies and procedures do not include all required components.
- The seller/servicer is not in compliance with the Appraiser Independence Requirements.
- The seller/servicer must implement comprehensive controls relating to appraisal reviews in the underwriting function in its organization.
- The seller/servicer does not have controls in place to address misrepresentation and/or identification of "red flags" in the appraisal review process.
- The seller/servicer does not monitor to ensure appraiser licenses are valid and in effect.
- The seller/servicer has not implemented a process to prevent the delivery of loans secured by properties encumbered with a private transfer fee to Fannie Mae.

#### REQUIRED DOCUMENTATION FOR A REVIEW

- A. Appraiser Approval and Review Policies**
  - Appraiser approval policy
  - Current list of third-party vendors used to support the appraisal process
  - Procedures for management of and oversight of any appraisal management companies, including review tools and review appraisals
- B. AIR Policies and Procedures**
  - AIR policy
  - Procedures for adherence to the AIR
- C. Documented Procedures to Address Properties Affected by a Disaster**
  - Procedures for complying with all requirements for properties affected by a disaster

#### WHAT'S NEXT?

Use the insights you've gained — especially any gaps identified in your practices and processes — to create a customized action plan.