By Doug Smith, SRA and Ann O'Rourke, SRA, MAI

NOTE: Doug Smith and Ann O'Rourke wrote separate articles on the UAD. They have been combined. For the Doug Smith sections, (Doug) is used. For the Ann O'Rourke sections, (Ann) is used.

Ann ------------------------------
I was pleasantly surprised to see how easy it was to complete the UAD format. My software, Clickforms, has automatic checking and pop up menus that really helped. Like everyone, I had specific details for my market that I had to figure out.

What about documentation?
The primary Freddie and Fannie document for appraisers is the 36-page Updated Field-Specific Standardization Requirements, also known as "Appendix D", Version 1.1, dated 2/18/11.

Additional useful information is in the 13-page UAD FAQs document, last updated June 7, 2011. You can search the PDF document for specific issues, such as a house built in two different years (use the age of the original structure). This document has information about why, who, and how it affects appraisers.

Both documents are well written, practical, and easy to understand. I have links to them on my home page at www.appraisalstoday.com.

What will happen after 9/1/11?
No one knows how the lenders will handle the UAD data, particularly in their reviews. We will have to wait and see. I predict more GSE FAQs for guidance.

What about FHA and VA?
They will be using the UAD formats, but will not be using the lender data portal.

How to get started
I just started filling out the form in my software, Clickforms. I went through the report checking each field with Appendix D. Fortunately, my software handles many issues such as date and currency entries with auto correction.

Go through the form, clicking on each field to see what happens. It will be clear when you will see a pop up with specific formatting required. Sometimes the software just auto corrects, for example date and currency formats.

Some fields were tricky in my area, most were not. For example, assessed year is 2011/2012 in California. Using the UAD, this would be 2011 (the first year).

Every geographic area is different. You will quickly identify fields that will be tricky for you. No book or class will fully cover every local issue. That's why I recommend practicing filling out the form using Appendix D.
In this article, Doug and Ann focus on the most significant fields, so use this article also.

**What about underwriters and reviewers?**
Most lenders are focusing on the main implementation - the UCDP - Uniform Collateral Data Portal, required starting March 19, 2012. I doubt if there will be much UAD training before 9/1/11.

The lenders will be using some sort of automated method, particularly for the "Requirement" fields, but I don't know when it will start.

I can't imagine the reviewers and underwriters learning all the details of the UAD. I suspect there won't be many "stips" for awhile after 9/1/11.

**What about borrowers understanding the UAD acronyms, etc.?**
Your client is the lender, not the borrower. You can attach Appendix D, FAQs, etc. to your report, but I don't know if the borrower will get them. Some will attach the description of the Quality and Condition ratings and also what the acronyms mean.

I predict that the lenders will have some way to provide explanations to the borrowers. Or maybe no borrowers will care (if they get their loan).

This is a problem for everyone. For example, beneficial in the view section is "B," on the form. What does that mean to borrowers?

Unfortunately, the 2005 URAR included the term "the reader" in Certification 23. Also, the term "reader " is used in place of "intended user" in Appendix D.

Including a disclaimer is recommended. For example, the intended user of this appraisal report is the lender/client. The intended use is for mortgage financing... No additional intended users are identified by the appraiser.

The Illinois Appraisal Board has stated that the UAD compliant reports must be understood by the borrower. In the June 2011 issue it was stated "Remember, borrowers need to understand the Appendix D translations." I have no idea how this will be accomplished.

**"Pop up" instructions**
The first pop up I had was for the address, where you enter in the data. Straightforward. The software gets the USPS address for you.

There were fewer pop ups than I expected. Most of the field data requirements were adjusted by my software, such as only allowing one year for the tax year.

**Instruction vs. requirement**
Each form field is labeled as either a requirement or an instruction to define how it will be validated in UCDP.

For form fields labeled as a requirement, UCDP will validate the data and will return an error message if the data does not conform to the defined reporting format. In the initial implementation of UCDP, error messages will appear as warnings; in the future they will transition to fatal errors, whatever that means.

For form fields labeled as an instruction, UCDP will not validate the reporting format, but the data must be transmitted if populated in the form by the appraiser. Regardless of the label, these fields are equally important for compliance with the UAD standardization.

**Date and currency format specifications**
Your software probably handles this, but be sure to check now. If it does, you don't have to worry about it.

- Currency fields - whole dollars only, no cents.
- Date fields - mm/dd/yyyy, example: 01/02/2011

**Blank fields, None or N/A - not allowed**
The GSEs prefer a blank field if there is no data from the appraiser, with a few exceptions, of course...

**No more None, N/A, typical, average, or similar are allowed.**
I will really miss them on the Sales Comparison Grid. Have to change my templates...

**What if I don't have enough room in a field?**
MISMO XML limits you to 20 characters in a container/field. Put additional remarks into the comments addendum.

**Doug --------------------------------------**

**Reporting and data entry**
There are some 200 data fields on the URAR form. Only about 60 are labeled as requirements under the UAD. Another dozen or so are labeled as instructions, although fields labeled as instructions won't call for appraisers to significantly change anything that they have already been doing. Of the some 60 data fields, only a few require more than ordinary analysis and documentation.

According to Fannie Mae and Freddie Mac, the UAD standardizes key data points to enhance quality and promote consistency in appraisal data.

Unlike the analysis involved in the 1004MC (Market Condition Report), the UAD concentrates on the reporting side rather than on the development of the appraisal, an important
distinction. On the face of it, appraisers may consider this new undertaking by Fannie Mae and Freddie Mac as simply a matter of more precise data entry.

Precise data entry is only part of the story. The new policies and procedures require rethinking the data-entry process and dealing with some fundamental changes within the residential appraisal software. Above all, appraisers are faced with new demands on supporting their conclusions and ensuring that the workfile includes adequate support for these data entries.

The 80/20 Rule applied to the UAD

There is something to be said for the timeless 80/20 rule. It is often used to explain many arcane and seemingly puzzling matters not the least of which are those that ordinary people like appraisers encounter every day.

Applying the 80/20 rule to the UAD, only about twelve (20%) of the 62 affected fields demand increased attention. The balance of the entries will not require much in the way of serious consideration. September 1, 2011 is drawing near when residential appraisers will be expected to submit at least four types of residential reports using the UAD format.

Of the some 200 entry lines on the typical 1004/70 form, only about 62 require entries specific to the UAD. By now, most residential appraisers have received their appraisal software version of UAD compliant reports and have had a chance to try out the new scheme of drop down menus.

Appraisers are reporting that the drop down menus which lay out the entries in a specific format will make the work of completing UAD compliant reports manageable although not without some sacrifice in productivity.

It simply takes more time to select an entry from a list than it does to simply type the entry. Much of current education offerings concentrate on the major change in adapting to the UAD format than of the ratings for both condition and quality. The key to understanding these two entries is to fully understand the definitions. More importantly, the appraiser must design a means to compile a workfile to both document and support the appraiser's opinions and conclusions.

Since much of the educational effort was directed to these two entries, the following column offers a review of at least ten lines other than the lines that focus on Quality and Condition that deserve extra attention and perhaps some pre-planning to smooth out the process of completing UAD compliant forms. There are also some entries that demand new thinking in terms of handling adjustments.

Sad to say, there are also some software modifications, particularly those that handle basement adjustments, that have created major roadblocks to productivity.

Transmittal

While software companies have released their versions of software, appraisers must also ensure that they are set up to actually send in the report. The reports themselves must be transmitted in an acceptable format. Some clients will require transmittal in MISMO® format or one of the other approved formats such as AI Ready™ or ACI/Lighthouse™. In each case, the appraisal software will create a PDF copy of the report. The software will also create a MISMO®-XML file that will, in the words of the software vendors, "wrap-around" the PDF of the report.

That single MISMO® XML file with the PDF "wrapped" inside is what will be sent to the client. Some software vendors offer the means to transmit appraisal reports with a sub-

scription; others offer the transmittal software as part of their basic package. Prior to September 1, appraisers might benefit by polling at least five of their best clients to find out by what means they expect to receive reports and then double check to make sure the means to transmit the finished product is in place.

Property address(Requirement) - P.O. Boxes, etc.

Ann -----------------------

Everyone wants to know where the property is located.

But, you MUST use what the USPS uses for the subject and comp addresses when filling out the form. In an addendum, put whatever identifier you have such as street address, legal description, latitude/longitude, etc. Identify the property's location.

This is very difficult to do manually. I was unable to find any online service suitable for appraisers. Be sure to set it up correctly in your software and test it.

The 432-page USPS Publication 28 has the instructions if you really want to know the details.

There are lots of issues with these fields. For example, USPS has the property located in one town and it is legally in another town. Or, there are only P.O. Boxes.

From UAD Q&As, 6/7/11: "The legal address of the property may be included in an addendum." I assume this means all address discrepancies.

If two addresses are often used, use the one that USPS has.

Doug -----------------------

Software developers such as ACI have included a look up feature for this entry that will verify the address. Appraisers may expect discrepancies with title companies in the early stages of UAD implementation as some title companies may have to catch up with this requirement. The
also have to have available the property history report.

With at least two monitors, collecting the information for these entries is made simpler and saves printing out multiple sheets. If taking data directly from MLS websites, it is necessary to note the collection means in the workfile to comply with USPAP workfile strictures.

This entry requires the following:
• Indicate if the subject property is currently offered for sale or if it has been offered for sale in the 12 months prior to the effective date of this appraisal. Checkbox is designated with an 'x'. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the following information is required:
  • Days on Market (DOM) The appraiser must enter the DOM for the subject property. DOM is defined as the total number of continuous days from the date that a property is listed or advertised for sale through the date that it is taken off the market or contracted for sale. DOM applies not only to properties that are listed in a Multiple Listing Service (MLS), but also applies to properties marketed for sale outside MLS. If the subject property was not individually listed or advertised for sale, enter the numeral zero (0). If the DOM is unknown, enter 'Unk'.
  • List/Offering Price(s) – The appraiser must report the original offering price and a history of price changes, if any.
  • List/Offering Date(s) – The appraiser must report the date(s) that the property was offered for sale.
  • Data Source(s) Used – The appraiser must report the data source(s) used to obtain the offering information. If the data source is MLS, the appraiser must enter the abbreviated MLS organization name, followed by a pound sign (#), and the specific listing identifier.
  • Lender/Client - must enter name of the lender (Requirement)

The key to all that is required in this entry is pre-analysis and collection of accurate data.

This entry alone provides the best argument for having more than one monitor. Some MLS organizations are vigilant about not allowing sequential listings. It is always good practice to check if there were multiple prior listings to ensure that day on the market are accurate as well as the listing history.

This entry requires considerably more data and, therefore, along with the MLS listing sheet, appraisers will also have to have available the property history report.

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  • Data Source(s) Used – The appraiser must report the data source(s) used to obtain the offering information. If the data source is MLS, the appraiser must enter the abbreviated MLS organization name, followed by a pound sign (#), and the specific listing identifier.
  • Lender/Client - must enter name of the lender (Requirement)
For Sale by Owner (FSBO) or otherwise marketed for sale outside of MLS, the appraiser must report the original offering price, history of price changes, if any, and the date(s) the property was offered for sale, etc., to the extent that this information is known or available to the appraiser in the normal course of business.

**Site/Area**

Below 1 acre is in "sf". 1 acre and above is in "ac".

Your software may or may not convert sq.ft to acres (2 decimal points). Mine only converted if the dimensions were entered first.

**Doug**

This entry calls for site size only. No longer may appraisers qualify the site by noting the site is "Irrigated" or "Non-Irrigated" or some other type of qualification. The implication is that adjustments to site value must be confined solely to the size of the site. Some MLS documentation reports the site size under an acre as a percentage of an acre.

Dave Towne of Appraiser Education Service created a Quick Reference Guide. Included in this guide is a chart that converts the acreage percentage to a square foot figure. For example, a "0.30 acre site is 13,068 square feet. A numeric value must be entered followed by the appropriate unit of measure.

**Site/View**

This entry has direct USPAP workfile implications, particularly for the comparable sales and listings used in the report.

A worthy proverb when compiling workfile data is: "The palest ink is better than the best memory." Appraisers might want to develop an informational tag to attach to the MLS records which will allow for some note taking about the specific view in terms of being Neutral, Beneficial or Adverse. Including the full list of View Factors would allow the appropriate view to be checked or circled.

The objective is to not only expedite data entry, but to fulfill USPAP workfile obligations. This item on page 1 is carried over to the grid in the Sales comparison section. The following is required: Overall Rating Type

Provide one of the ratings from the list below to describe the overall effect on value and marketability of the view factors associated with the subject property:

N – Neutral; B - Beneficial; A – Adverse

The entry is made as follows:

For sites/parcels that have an area of less than one acre, the size must be reported in square feet. For sites/parcels that have an area of one acre or greater, the size must be reported in acreage to two decimal places.

The unit of measure must be indicated as either ‘sf’ for square feet or ‘ac’ for acres. A numeric value must be entered followed by the appropriate unit of measure.

**View Factor**

Next, provide the relevant view factors of the property. You must select one but no more than two, of the following factors:

- Water View (Wtr)
- Pastoral View (Pstrl)
- Woods View (Woods)
- Park View (Prk)
- Golf Course View (Glfwv)
- City View Skyline View (CtySky)
- Mountain View (Mtn)
- Residential View (Res)
- City Street View (CtyStr)
- Industrial View (Ind)
- Power Lines (PwrLn)
- Limited Sight (LtdSght)

*Other: If a view factor not on this list materially affects the value of the subject property, the appraiser must enter a description of the view associated with the property. The description entered must allow a reader of the appraisal report to understand what the view associated with the property actually is.

Descriptors such as "None", "N/A", "Typical", "Average", etc., are unacceptable. Descriptions should be entered carefully because the same text will be represented in both the Site section and the comparable sales grid for the subject property. The text must fit in the allowable space.

**Basements**

Besides the rating system for quality of construction and property condition, the handling of basements represents the major change within the sales comparison grid. The handling of basements often largely depends on geographic concerns. Therefore, appraisers will have to take their own handling of basements in consideration. Basically, it matters whether a basement contributes value to a property. The UAD is silent about geographic derived concerns.
Appraisers are required to report the total square footage of the property improvements below grade on line 1. If there is no basement, the appraiser enters a zero. On the same line, the appraiser must report the finished square footage of the property improvements below grade, if applicable. Appraisers no longer indicate a percentage finished on line 1.

However, the appraisal software will apply the percentage in the improvement section on Page 1 and insert the finished total in the sales comparison grid. The type of access must be reported. Only the number of each type of rooms may be reported on line 2.

Appraisers will choose from a set of descriptors. In the current appraisal software versions appraisers list the total amount of basement area on line 1 and, along with the rooms list, enter the amount of finished space. The current software programs allow for an adjustment for the total square footage and an additional adjustment for the finished space on line 2.

This notation system is set out in Mark Rattermann's book "Using Residential Appraisal Report Forms." According to Rattermann, most appraisers make this adjustment by comparing the unit cost of the basement with the unit cost of the comparable after adjusting for depreciation.

Currently, residential software programs allow two levels of adjustment, one for total basement and one for finished space, but the amount of finished space was formerly entered on line 2. This is no longer allowed in the UAD.

The software vendors fix this by re-programming the software to read the total and total finished from line 1. The appraiser can enter the amount of the adjustment in each case. The notation will look as follows on the first line: 1000sf750sfwo [the last part (wo) is access-walk out].

In the present version of most appraisal software, both the GLA adjustment and the adjustment for basement space are accessed from the grid. In the recently released copy of software for the UAD report from ACI, neither the GLA adjustment nor the basement adjustment is available from the grid. Appraisers with ACI software must select an option menu and drill down several layers to access the GLA grid adjustments and the basement adjustments.

This is both inconvenient and, if adjusting for GLA in a sensitivity analysis, time consuming. As software is finalized, appraisers will need to become familiar with the means to accommodate adjustments particularly the overall basement adjustments.

The adjustment is shown only as total. To accommodate reviewers, appraisers will need to lay out their adjustment process within the sales comparison comments so that a reviewer may reconcile the adjustment factors that make up the total adjustment shown on the grid.

**Number of baths - only full or half baths**

**Ann -------------------**

Entered as 2 bedrooms 2 full baths, 3 half baths = 3 bedroom 2.3 baths. No 1/4 baths. 3/4 baths are full baths.

**Doug -------------------**

Accounting for baths is perhaps the simplest of all the changes, but appraisers may encounter some initial misunderstanding regarding the new protocol.

In some markets, a bath with a toilet, sink and shower is designated a three/quarter bath or 0.75 bath. The UAD requires that these baths be designated full baths. Quarter baths (baths that feature only a toilet) are not to be included in the bathroom count.

**Date of Sale**

Some appraisers and some state regulators have questioned the inclusion of active listings in the sales comparison grid, holding that mixing both sales and listing on the grid designed for sales is misleading.

This debate has been largely settled with the issuance of the UAD Appendix D. Furthermore, the full list implies that appraisers may draw on the full range of market data to support their conclusions to include expired listings as well as withdrawn listings. This entry requires the appraiser to identify whether the sales comparison entry is Active, Contract, Expired, Withdrawn or a Settled Sale.

In addition, both the contract date and the settled date must appear on the line. If the Status Type is "Settled Sale", a Contract Date is required. If the Contract Date is not known, then select "Unk". Because of space constraints, only the month and year will appear on this line. However, the full date including the day of the month may be selected from which the rule set will calculate the number of days or months since the actual sale.

**Location**

As on the view line, appraisers must give some thought to addressing the workfile. The following is required.

**Overall Rating Type**

Provide one of the ratings from the list below to describe the overall effect on value and marketability of the location factors associated with the subject property and each comparable property:

N – Neutral; Beneficial; A – Adverse

**Location Factor**

Next, provide the relevant location factors of the property. You must select one, but no more than two
of the following factors:

- Residential (Res)
- Industrial (Ind)
- Commercial (Comm)
- Busy Road (BsyRd)
- Water Front (WtrFr)
- Golf Course (GlFCse)
- Adjacent to Park (AdjPrk)
- Adjacent to Power Lines (AdjPwr)
- Landfill (Lndfl)
- Public Transportation (PubTrn)

See Instruction Below

Other – Appraiser to enter a description of the location*

*Other: If a location factor not on this list materially affects the value of the property, the appraiser must enter a description of the location associated with the property.

The description entered must allow a reader of the appraisal report to understand the location factor(s) that is associated with the property.

Descriptors such as "None", "N/A", "Typical", "Average", etc., are unacceptable. The text must fit in the allowable space.

Actual Age

Many appraisers enter the effective age on this line. This option is no longer available and if an effective age adjustment is entered into the report, it may be entered on one of the three lines open at the bottom of the grid.

The UAD introduces a rating system to both Condition and Quality of Construction. Appraisers must select one rating from a list that best describes the overall quality of the property. The appraiser must select one overall condition rating for the subject and each comparable that matches the overall condition of the subject property and this must match the overall condition that was reported in the improvement section on the first page.

New data specifications quality and condition, kitchen and bath remodeling/updating/date

Ann ---------------
- Quality and condition. We have always been required to include quality and condition. Now we have 6 choices for each one.
- When the kitchen and bath were updated or remodeled (ranges). This may be tough to get, especially if the owner has not lived in the property for the past 15 years.
- Specific data on the comps, such as basement size and percent finished.

Kitchen and bath condition

Doug ---------------
The UAD introduces a more specific means to identify the actual condition of the property when reporting the state of the kitchen(s) and bathroom(s) in the improvement section. The appraiser must indicate "Yes" or "No" if there has been any

What about effective age?

Ann ---------------
This cannot be used in Actual Age line on the adjustment grid. You must use another blank line.

Doug ---------------

In the first Webinar on UAD, Robert Murphy from Fannie Mae spoke about the practice of some appraisers making an effective age adjustment on the line reserved for Actual Age. This is not allowed by UAD as only the actual age can be entered on this line.

Appraisers making this type of adjustment on this line will have to locate this adjustment on another line. In the short time remaining, Murphy did not address the practice of some appraisers making this adjustment.

Condition is not the same as age. Many appraisers use the effective age in place of actual age. Appraisers list actual age and then note estimated effective age on the Actual Age line and then make some illogical adjustment such as 1% of the sales price per year for the difference in effective age or a common amount such as $1,500 per year.

If there is to be an adjustment for condition, then this adjustment belongs on the line for condition. Some appraisers, rather than use the descriptions, "average," "fair," and "good," insert the effective age.

While using effective age as a numerical rating, it is not logical to replace actual age because it offers a second condition variable to the form. Fannie Mae/Freddie Mac effectively closes all these options and requires only the actual age be addressed on the Actual Age line and only a condition rating appear on the Condition line. Appraisers must turn their attention to any required adjustments on these lines.

Following the logic, newer homes sell for more than older homes and deriving an adjustment is best accomplished with a set of paired sales.

The cost approach is difficult to use for an actual age adjustment due to differing short and long lived items. Therefore, the sales comparison approach using paired sales or using the variation of a sensitivity analysis, using alternate adjustments bringing the indicated adjusted sales price into line with the other comparables is the most common way to derive this
Ann -----------------------

Sales comparison grid

New formats for the subject are required for address, location (which seems to refer to view), age, condition, basement, sale type, concessions etc.

Some appraisers have combined categories or use a line for something else. This will not be allowed. You only have two blank adjustment lines. You can put the combined adjustments here and include an explanation in the addendum of how you derived the adjustment.

Location and comps not in neighborhood

This is included on the sales comparison grid for the subject and comps.

Per Fannie Q&A #42, "The "Location" field in a UAD appraisal report is for rating and describing the location of the subject and comparable properties within the neighborhood or market area.

In those instances where it is necessary to use one or more comparable properties that are located in a different neighborhood or market area than the subject property, the appraiser can report this information by using one of the three "blank" fields located at the bottom of the grid and, if necessary, make appropriate adjustments.

Condition ratings - controversial, C1-C6

Is a condition rating absolute or relative? This is a very controversial topic.

It is absolute, per Rich Heyn at the AI's UAD class. It is not "conditional relativism" where if all the homes need work, then the subject is average.

In the AI seminar I took, we didn't use C1 (recently constructed) except for new construction. C6 (substantial damage, etc.) is not lendable for the GSEs, so would probably not be used. If it is not an REO property, typically you call the lender and inform them of the condition. Sometimes they want the appraisal completed, but usually not.

C2 is where the home has no deferred maintenance and no repairs, etc. Some homes are like this, especially if recently constructed.

C5 is obvious deferred maintenance, need significant repairs, etc. The GSE's may purchase the loan if done "subject to" the repairs.

Most homes will be C3 (well maintained) or C4 (adequately maintained, normal wear and tear). Deciding between C3 and C4 can be tricky. Unfortunately we can't use my favorite, C3.5...

Local market preferences should also be considered.

When estimating adjustments, if the subject and a comp are both C4, there can be an adjustment as the ratings are relatively wide. This applies to any field in the grid.

A recommended rating method from the Appraisal Institute's UAD class. The class included a specific form, but you can make up your own if you are not able to attend the class.

1. Describe and record the details of each individual building component's condition under its defined major building category for later analysis as well as for workfile or challenge purposes.

2. Determine an overall condition rating for each major building category.

3. Weight the relative importance of the condition for each major building category in terms of both physical condition and market preference.

4. Reconcile the weighted results into a single, overall condition rating.

Building components include the typical electrical, plumbing, HVAC, etc.

Per Fannie, "The condition of the property should be determined holistically, and the best definition should be applied as the overall rating."

Quality ratings - controversial - Q1-Q6

Quality ratings are also absolute. For example a Q4 rating in a Q2 neighborhood.

To me, the quality ratings were not clear. Fannie did its own ratings after Marshall & Swift did not want their ratings used. But using M&S may be helpful to understand differences in quality.

Q1 are "Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high-quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality. According to the GSEs, less than one percent of homes are in this category.

Q2 Dwellings with this quality rating are often custom designed for construction on an individual property owner's site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.
Q3 Dwellings with this quality rating are residences of higher quality built from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner's site. The design includes significant exterior ornamentation and interiors that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from "stock" standards.

Q4 Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.

Q5 Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements and upgrades.

Q6: Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or non-existent. Older dwellings may feature one or more substandard or non-conforming additions to the original structure.

Similar to the condition ratings discussed above, the high (Q1) and low (Q6) are not often used. I am not clear on the differences between Q2 to Q5, particularly if the homes were built prior to current building codes.

You can use a four-step method similar to the one used in quality, discussed above to establish an overall quality rating.

Cost is also a factor, as we are doing an absolute rating, not relative.

Local market preferences are also important.

**Previous UAD articles in Appraisal Today**

Articles previously published in Appraisal Today are useful for background information:
- Fannie's new Uniform Appraisal Dataset, effective 9/1/11 What does it mean for you - 3/11 issue. Good tips on filling out the sales grid and making adjustments

**Where to get info/training**

We both took the Appraisal Institute's UAD class. It was excellent. I (Ann) didn't have much luck with a couple of webinars I took.

I know of one printed book - Henry Harrison's UAD guide. I did not read it.

Whatever you use, I strongly advise filling out the fields going line by line through the book, course materials, or GSE documents.

**About the author**

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New GAO report on residential appraisal oversight - AMCs, fees, use of AVMs, etc.

Report title: Residential Appraisals: Opportunities to Enhance Oversight of an Evolving Industry
GAO-11-653 July 13, 2011

This GAO report was required by the Dodd-Frankenstein Act. Will anyone read it? Will it make any difference? No way to tell now. I don't see much media reporting on it, which usually means it is not a hot topic.

I had hoped, after seeing the objectives, that the GAO study would have something to help appraisers, especially increasing fees. There is not much new in the report. I had hoped this report would have more impact. Unfortunately, appraiser fees were seen as not changed much and are not too low now.

To get a copy of the report, Google "GAO-11-653" Most of the text below is direct quotes, with a few minor changes such as using GSE for enterprises. Of course, I have a few comments, especially in the titles of the sections.

GAO research and analysis used

GAO examined (1) the use of different valuation methods, (2) factors affecting consumer costs for appraisals and appraisal disclosure requirements, and (3) conflict-of-interest and appraiser selection policies and views on their impact.

To address these objectives, GAO analyzed government and industry data; reviewed academic and industry literature; examined federal policies and regulations, professional standards, and internal policies and procedures of lenders and appraisal management companies (AMC); and interviewed a broad range of industry participants and observers.

Objectives of the report

The GAO examined:
1) the use of different valuation methods and their advantages and disadvantages;
2) factors that affect consumer costs and requirements for disclosing appraisal costs and valuation reports to consumers; and
3) conflict-of-interest and appraiser selection policies, and views on the impact of these policies on industry stakeholders and appraisal quality. We also consider the impact of the Home Valuation Code of Conduct (HVCC) throughout the report.

The GAO also considered the impact of the Home Valuation Code of Conduct (HVCC) throughout the report.

Who receives the recommendations?

- Regulators - Federal Housing Finance Agency (FHFA), and the Bureau of Consumer Financial Protection
- The heads of FDIC, the Federal Reserve, FHFA, NCUA, OCC, and the Bureau of Consumer Financial Protection — as part of their joint rulemaking

How many GSE loans required appraisals?

We also aggregated data from five lenders, which include not only mortgages sold to the GSEs, but also mortgages insured by FHA, guaranteed by VA or USDA, held in the lenders' portfolios, or placed in private securitizations. These data show that:

- For the first-lien mortgages for which data were available, these lenders obtained appraisals for 88 percent of the mortgages they made in 2009, including 98 percent of purchases and 84 percent of refi mortgages; and 91 percent of the mortgages they made in 2010, including 98 percent of purchase mortgages and 88 percent of refis.

Use of AVMs for first loans GSEs and lenders - no appraisal done

For the remaining mortgages processed through the GSEs automated underwriting systems, they did not require an appraisal because their underwriting analysis indicated that the default risk of the mortgages was sufficiently low to instead require validation of the sales prices (or loan amounts in the case of refinances) by an AVM-generated estimate of value.

For the lenders above, mortgages for which an appraisal was not done, the lenders we spoke with reported that they generally relied on validation of the sales price against an AVM-generated value, in accordance with enterprise policies that permit this practice for some mortgages with characteristics associated with a lower default risk.

Interior vs. exterior inspections

In both 2009 and 2010, the GSEs required interior and exterior inspections for roughly 85 percent of the appraisals for purchases and roughly
92 percent for refis.

The remaining appraisals required exterior inspections only. Available GSE data for the preceding 3 years showed that appraisals were required for almost 90 percent of mortgages (purchases and refis combined), and the percentage of appraisals requiring both interior and exterior inspections increased from approximately 80 percent to 86 percent, although the data covered a smaller proportion of the enterprises’ total mortgage purchases.

For both 2009 and 2010, the lenders reported that interior and exterior inspections of the subject property were conducted for over 99 percent of the appraisals for purchase mortgages and about 97 percent of the appraisals for refinance mortgages. The remainder involved exterior inspections only. Although data for the preceding 3 years were less complete, they showed roughly similar percentages to those for mortgages made in 2009 and 2010.

The higher percentages reported by the lenders compared with those from the enterprises in 2010 may partly reflect lender valuation policies that exceed enterprise requirements in some situations. For example, officials from some lenders told us their own risk-management policies may require them to obtain an appraisal even when the enterprises do not, or they may obtain an appraisal to better ensure that the mortgage complies with requirements for sale to either of the enterprises.

Additionally, FHA requires appraisals with interior and exterior inspections for all of the purchase mortgages and most of the refinance mortgages it insures, and most of the lenders we contacted make substantial numbers of these mortgages.

**BPOs - not used for first mortgages**

The enterprises do not permit lenders to use BPOs for mortgage originations, and guidelines from federal banking regulators state that BPOs do not meet the standards for an evaluation and cannot be used as the primary basis for determining property values for mortgages originated by regulated institutions.

Lenders and other mortgage industry participants we spoke with identified advantages to BPOs that make them useful for property valuations in situations other than first-lien purchase or refinance mortgage transactions. Lenders and AMCs we spoke with estimated that BPOs cost from $65 to $125 and are generally completed in 3 to 5 days, while appraisals can cost more than twice as much and take several days longer to complete.

**Cost Approach and Income Approach - how often used**

FNC captures data on appraisals conducted for a number of major lenders; FNC’s data represent approximately 20 percent of mortgage origination in 2010.

FNC’s data for both purchase and refinance transactions show the following:

- Nearly 100 percent of appraisals from 2010 used the sales comparison approach. The percentage was the same for 2009 appraisals.
- Sixty-six percent of appraisals from 2010 used the cost approach, generally in combination with the sales comparison approach, similar to 65 percent for 2009 appraisals.
- Five percent of appraisals from 2010 used the income approach, virtually always in combination with one or both of the other approaches. The corresponding percentage for 2009 appraisals was 4 percent.

**AMC recommendations**

- Set minimum standards for states to apply in registering AMCs
- Criteria for selecting appraisers for appraisal orders, review of completed appraisals, etc.
- Qualifications for appraisal reviewers.

**Cost of AMC appraisals - same as fee appraisers**

Appraisers, lenders, and AMCs we spoke with told us that, in general, neither the number of appraisal approaches (i.e., sales comparison, cost, and income) used by an appraiser nor a lender’s use of an AMC affect consumer costs for an appraisal.

Mortgage industry participants we spoke with told us that the amount a consumer pays for an appraisal is generally not affected by whether the lender uses an AMC or engages an appraiser directly.

Rather, they said that AMCs typically charge lenders about the same amount that independent fee appraisers would charge lenders when working with them directly, and lenders generally pass on the entire cost to consumers.

Appraisal industry participants told us that the AMC portion is at least 30 percent of the fee the consumer pays for an appraisal. For example, one AMC official told us that, for a $375 appraisal, the appraiser would receive approximately $250, and the AMC would keep $125, $100 of which would cover its costs and $25 of which would be pretax profit.

According to lenders and AMCs we spoke with, consumer costs for appraisals increased slightly in 2009, as a result of the enterprises requiring appraisers to complete an additional form, called the market conditions addendum.

A number of appraisal industry participants also said that some AMCs include appraisers employed by appraisal firms on their appraiser panels, which may result in even lower fees paid to those appraisers because both the AMC and the appraisal firm are keeping a portion of the total appraisal fee.
Consumer appraisal costs

In general however, lenders, AMC officials, appraisers, and other industry participants noted that consumer costs for appraisals have remained relatively stable in the past several years and pointed to several factors that could explain this stability.

First, a number of those we spoke with said that increased use of technology and greater availability of data electronically has allowed appraisers to complete some of their required tasks more quickly.

Second, the supply of appraisers relative to the demand for their services has helped to hold consumer costs steady. Some lender and AMC officials said that there is an oversupply of appraisers in some markets where fewer mortgage loans are being originated, which has put downward pressure on appraisers' fees. Third, AMCs compete with each other for lenders' business, which keeps costs relatively stable.

Determining appraisal fees by AMCs

The effect of this change on consumer costs may depend on the approach lenders and AMCs take in complying. Some lenders and AMCs told us that, under the first presumption of compliance, they believe they can continue to compensate appraisers at the rates they have been paying them for recent assignments, relying in part on internal data from the previous 12 months as evidence that those fees are customary and reasonable. Assuming they were able to meet the conditions for this presumption of compliance, consumer costs likely would not change, according to representatives of these companies.

However, other lenders are taking steps to meet the requirement under the second presumption of compliance. Some mortgage industry participants told us that some lenders, including smaller ones, may set appraiser fees at the level outlined in the VA appraiser fee schedule, which uses information from periodic surveys of lenders to set maximum fees that borrowers can be charged in each state.

Other lenders and industry groups are having fee studies done in order to comply. Because these studies cannot include the fees AMCs pay to appraisers, some industry participants, including some AMC officials, expect them to demonstrate that appraiser fees should be higher than what AMCs are currently paying. If that is the case, these lenders would require AMCs to increase the fees they pay to appraisers to a rate consistent with the findings of those studies. The expected result would be an increase in appraisal costs for consumers as well as potential improvements in appraisal quality.

However, some lenders are evaluating the possibility of no longer using AMCs and managing their own panels of appraisers, which would eliminate the AMC.

The rules also require lenders and AMCs to demonstrate that these rates consider factors such as the type of property and scope of work. Several appraisal industry groups told us that higher fees for appraisers would improve appraisal quality by retaining and attracting better qualified appraisers to the profession.

Some regulatory officials and lenders told us that lenders can still...
recover the cost of managing the appraisal process from the consumer in other ways—for example, through higher application fees, origination fees, or interest rates.

**Disclosure of fee paid to appraiser**

Some appraisers and federal and state regulatory officials said requiring separate disclosures of AMC fees and appraiser fees would benefit consumers by providing greater transparency.

However, other federal officials and lenders questioned the value of separate disclosures for various reasons: the information could be confusing to consumers, would come too late to inform consumer decision making if provided at closing, and involves a small part of total closing costs.

"In house" AMCs

When lenders order appraisals from an AMC they own or are affiliated with, the lender's loan production staff may be able to influence AMC staff to pressure appraisers, according to some mortgage industry stakeholders.

**How many loans go through AMCs?**

Although industry-wide data on lenders' use of AMCs over time are unavailable, appraisal industry participants told us that between 60 and 80 percent of appraisals are currently ordered through AMCs, compared with less than half before HVCC went into effect in 2009.

According to these participants (above), this increased demand for AMCs' services has resulted in a proliferation of new AMCs across the country.

**Why are so many loans going through AMCs?**

Lenders and other mortgage industry participants identified several factors that have contributed to a greater use of AMCs.

First, market conditions, including an increase in the number of mortgages originated during the mid-2000s, put pressure on lenders' capacity to manage appraiser panels.

Second, as lenders expanded the areas in which they originated mortgages, they found identifying appraisers with the appropriate experience and familiarity with the various locations to be increasingly burdensome.

They also said it would be difficult to predict where across the country they would need appraisers at any given time.

AMCs provided a practical solution to these two issues. According to a number of lenders we spoke with, AMCs can manage the valuation process and costs more efficiently than their internal valuation departments.

In particular, they told us that AMCs are better equipped to handle the administrative effort of managing appraiser panels, such as checking licenses, maintaining contact information, placing and following up on appraisal orders, performing initial quality control, and providing national geographic coverage. In several of these cases, the lenders had already switched to using AMCs years before HVCC went into effect.

The third factor that affected some lenders' use of AMCs was that HVCC required additional layers of separation between loan production staff and appraisers.

According to some appraisal industry participants, some lenders may have outsourced appraisal functions to AMCs because they thought using AMCs allowed them to easily demonstrate compliance with the appraiser selection provisions in HVCC.

Several appraisal industry participants told us that some lenders incorrectly believed they were required to use AMCs in order to be in compliance with HVCC.

**AMC problems - from the appraisers' side**

Some appraiser groups and other appraisal industry participants have expressed concern that existing oversight may not provide adequate assurance that AMCs are complying with industry standards and their own policies and procedures, with negative impacts on appraisal quality.

**Quality.** Although they did not provide us with data to demonstrate a change in quality, these participants suggested that the practices of some AMCs for selecting appraisers, reviewing appraisal reports, and establishing qualifications for appraisal reviewers, key areas addressed in federal regulations, need changes.

Selecting appraisers. Appraiser groups said that some AMCs select appraisers based on who will accept the lowest fee and complete the appraisal report the fastest rather than on who is the most qualified, has the appropriate experience, and is familiar with the relevant neighborhood. They said that, with many experienced appraisers departing from the industry, less experienced appraisers, who are often willing to accept lower fees, are left to perform most of the work.

**Reviewing appraisal reports.**

According to some appraisal industry groups, some AMCs' appraisal reviews overemphasize how close the appraiser's value conclusion is to an expected value generated by an AVM, at the expense of other important elements of the appraisal, such as the appropriateness of the comparable sales. One group noted instances in which AMCs told appraisers which comparable sales to use when the appraisers' original value conclusions...
were not consistent with AVM-generated values.

**Establishing qualifications for appraisal reviewers.** Representatives of an appraisal industry group told us that some AMC reviewers may lack the expertise necessary to identify problems with quality. They noted that in some states appraiser licensing and certification requirements do not address qualifications for appraisal reviewers.

**AMCs say "no problems"**

AMC officials we spoke with said that they have processes and standards that address these areas of concern. Several AMC officials told us they have vetting processes to select appraisers for their panels, including minimum requirements for years of appraising experience and education.

When selecting appraisers for a specific assignment, these AMCs indicated that they use an automated system that identifies the most qualified appraiser based on criteria such as the requirements for the assignment, the appraiser's geographic proximity to the subject property, and performance metrics such as timeliness and the quality of appraisers' work.

**AMC appraisal fees**

The AMC officials we spoke with said they allow appraisers to specify how much they will charge for different types of appraisal assignments and, in some cases, provide appraisers with the range of fees their peers on the appraiser panel charge.

These officials said they compare fees only when two appraisers are equally qualified for an assignment, in which case they might default to the appraiser with the lower fee.

**AMC quality reviews and AVMs**

Further, these officials said that when performing quality reviews on appraisals, they run automated checks to identify any problems with completeness and internal consistency. These reviews may also involve comparing the appraiser's estimated value to a value generated by an AVM.

Appraisals flagged for potential problems, such as risk of overvaluation, are manually reviewed by staff reviewers, who often have backgrounds in underwriting or appraising. One AMC official told us that their reviewers also provide coaching for less experienced appraisers to help them improve the quality of their appraisal reports.

**AMC oversight - federal and state regulators**

This rulemaking also provides a potential avenue for reinforcing existing federal requirements for key functions that may impact appraisal quality, such as selecting appraisers, reviewing appraisals, and establishing qualifications for appraisal reviewers.

Federal guidelines for lenders address these functions and require that lenders take steps to ensure that AMCs comply with the guidelines when lenders rely on AMCs to perform these functions.

However, federal regulators do not directly monitor AMCs' compliance with the guidelines; direct oversight of AMCs will be instead performed by state regulators, with the Appraisal Subcommittee monitoring state AMC oversight.

If state standards do not also address these functions, state oversight of AMCs may not provide adequate assurance that these functions are being properly carried out.

Despite the increased use of AMCs, direct federal oversight of AMCs is limited because the focus of regulators is primarily on lenders, and state-level requirements for AMCs are uneven, ranging from no laws to laws with specific standards for registering with the state. Some appraisal indus-

try participants have raised concerns that the management practices of some AMCs may be negatively affecting appraisal quality.

Among the areas of concern are AMCs' practices for key functions, including selecting appraisers for assignments and reviewing completed appraisal. Officials from the federal banking regulators said they expect this process to begin in August or September 2011.

The federal banking regulators have emphasized the importance of these functions in guidelines that apply to lenders' appraisal functions.

The Act requires the federal banking regulators and other federal agencies to set minimum state standards for registering AMCs, which provides an opportunity for the regulators to address these areas of concern and promote more consistent oversight of these functions, whether performed by lenders or AMCs.

Doing so could help to provide greater assurance to lenders, the enterprises, and federal agencies of the quality of the appraisals provided by AMCs.