

In support of our efforts to improve the quality and accuracy of appraisals for the mortgages we purchase, effective appraisal management and underwriting processes within your organization is key.

The information provided in this resource tool highlights our general expectations for effective appraisal management and underwriting processes. Freddie Mac encourages you to implement additional practices and procedures, as you deem necessary, to fit your particular business operations. Also, you are reminded that you must comply with the requirements specified in the *Single-Family Seller/Service Guide* (Guide), and your other Purchase Documents.

These best practices are based on our analysis of practices used by many of our Sellers throughout their appraisal management and controls process. Based on our analysis, we've identified the following as key actions that support a strong collateral management process.

Key Components of an Effective Appraisal Management Process

General Processes and Controls

- Fully implement Guide Exhibit 35, Appraiser Independence Requirements (www.FreddieMac.com/singlefamily/appraiser_independence.html)
- Document and monitor compliance with, and effectiveness of, policies and procedures
- Implement necessary changes to policies and procedures in a timely fashion
- Communicate policies and procedures to staff, sourcing channels and the appraisers via an effective and timely communication system
- Provide training and guidance to employees on underwriting appraisals, and approving, monitoring and managing appraisers and appraisal management companies (AMCs); and continue to hire skilled, qualified and experienced staff
- Monitor performance of appraisers, AMCs and appraisal reviewers. Proactively measure and manage these parties using specific appraisal quality benchmarks
- Conduct due diligence of AMC's policies, processes and key controls at the time of approval and on an ongoing basis thereafter
- Apply appraisal review processes to all appraisals and vary them based on predefined levels of risk
- Arrange for the governance and authority of collateral policies and procedures to be independent from production staff
- Conduct quality control tests on a randomly selected statistically significant percentage of appraisals. Report any adverse, negative or irregular findings to Freddie Mac

Appraiser / Appraisal Management Company Controls

- Separate the staff that are charged with approving or selecting individual appraisers / AMCs from the production staff
- Utilize only knowledgeable and experienced staff to select individual appraisers / AMCs
- Select appraisers / AMCs based on criteria that focuses on quality of the collateral assessment, rather than other factors such as price or completion time
- Prevent any influence on the appraiser selection and appraisal outcome by ensuring the production staff and TPOs do not have advance notice of appraiser / AMC selection
- Evaluate and select qualified individual appraisers / AMCs by performing checks on: state licensing, references, errors and omissions insurance, work samples, market knowledge and experience in specific property type valuations (manufactured homes, condos, co-ops, 2- to 4-unit properties)
- Be certain that appraisers who appear on the Freddie Mac Exclusionary List are not engaged to perform appraisals for mortgages that will be sold to Freddie Mac
- Identify unsatisfactory performance at the AMC, appraisal company level and at the individual appraiser level and take appropriate actions to correct or remove deficient performers
- Document results of the monitoring process and share results with appraisers and AMCs
- Review results on a regular basis and make termination decisions independent of production staff
- Implement adequate business controls to prevent appraisers from being subject to undue influence in performing the appraisals
- AMCs, if used, employ a formal review process to monitor the quality of all appraisals/appraisers and share results with you

Appraisal Review Controls

- Review the appraisal to determine the completeness of the appraisal report, the reasonableness of the reported value, and that the appraiser's techniques are adequate and that the appraised value is well supported
- Review and determination of the quality and accuracy of the appraisal must be made independently of the credit assessment. For example, a low LTV ratio or a high FICO score cannot offset an unacceptable appraisal
- Recommend establishing specific criteria for escalating the review of appraisals based upon the potential collateral valuation risk. The level of risk may vary depending on the transaction type, property location, HVE variance, Calibrator Score, or other collateral related risk attributes
- Document the results of appraisal reviews
- Maintain qualified appraisal reviewers:
 - Sufficiently trained on appraisal review best practices, policies, procedures and expertise to assess compliance with Uniform Standards of Professional Appraisal Practice (USPAP), Appraisal Independence Requirements (Exhibit 35) and Freddie Mac appraisal guidelines

Appraiser Review Controls, *continued*

- Higher risk appraisals should only be reviewed by individuals with extensive appraisal review experience and geographic competency. Generally these individuals would be licensed appraisers
- The appraisal review function is independent of production activity; if independence is not feasible due to the small size of the Seller's staff, the Seller must have the appropriate controls in place to assure independence

Appraiser's Opinion of Market Value Controls

- The appraiser's opinion of market value of the subject property must not include the value of furniture or other personal property
- Utilize automated valuation models (AVMs) and other risk assessment tools in the appraisal review process to verify appraisal information, provide additional sales data and flag potentially inflated values
- Any changes to the opinion of market value may only be made by an appraiser licensed or certified and experienced in the market area in which the subject property is located
- Any changes to the opinion of market value must be fully documented by the appraiser including providing additional comparables.
- Valid concerns about the appraisal must be resolved with the appraiser. If an appraisal deficiency cannot be resolved, the original appraisal must be rejected and a second appraisal must be obtained
- In accordance with the Appraisal Independence Requirements, when there is a reasonable basis to believe an appraiser or appraisal management company is violating applicable laws, or is otherwise engaging in unethical conduct, the matter must be promptly referred to the applicable state appraiser certifying and licensing agency or other relevant regulatory bodies

Freddie Mac Resources

The following resources provide best practices, guidance and tools focused on improving the quality and accuracy of collateral valuations for mortgages delivered to Freddie Mac:

- **Appraisal Review Reminders** (http://www.FreddieMac.com/learn/pdfs/uw/apr_reminders.pdf)
- **Quality Control and Fraud Prevention Resources** (www.FreddieMac.com/singlefamily/quality_control.html)
- **Understanding the HVE messages Returned with Loan Product Advisor's Results** (www.FreddieMac.com/learn/pdfs/uw/hve_messages.pdf)

These additional training resources on Freddie Mac's Learning Center [Collateral webpage](#) will assist you in improving your proficiency in reviewing appraisal or property inspection reports and using the Uniform Collateral Data Portal in order to meet Freddie Mac requirements:

- **Collateral Assessment webinar**
(www.FreddieMac.com/ontrack/html/LearningCenter/ClassDescription.jsp?crsNum=CA)
- **Freddie Mac Form 71: Market Conditions Addendum Form tutorial** (<http://FannieMae.articulate-online.com/ContentRegistration.aspx?DocumentID=ac2dbae4-013f-4be2-b6bc-036190988cd7&Cust=77787&ReturnUrl=/p/7778703690>)
- **Tutorial 1: Using the Uniform Collateral Data Portal (UCDP)**
(<http://FreddieMac.elearningserver.com/p/7733008266/DocumentViewRouter.ashx?Cust=77330&DocumentID=55374061-3f2f-456f-ab80-8e5569d5bb09&Popped=True&v=4&InitialPage=presentation.html>)
- **Tutorial 2: Submitting Appraisal Data Files to the UCDP**
(<http://FreddieMac.elearningserver.com/p/7733085546/DocumentViewRouter.ashx?Cust=77330&DocumentID=fc725aef-ad89-40ee-9b4e-bc768b80ba5d&Popped=True&v=4&InitialPage=presentation.html>)

This document is not a replacement or substitute for the information found in the *Single-Family Seller/Service Guide*, and /or terms of your Master Agreement and/or Master Commitment.

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