


Understanding the Home Value Explorer® (HVE) Messages Returned with Loan Prospector's Results



Home Value Explorer® (HVE®) is a Freddie Mac automated valuation model (AVM) tool that provides a point value estimate for a property. The tool also provides a Confidence Score and Forecast Standard Deviation that indicates the accuracy of the estimated value. Use this reference to assist you with understanding and determining how to use the HVE feedback messages returned on the Loan Prospector® Feedback Certificate. The HVE messages are intended to be used as a tool during the underwriting of the appraisal report and to help you more easily identify potentially inflated property values earlier in the origination process.

 **Effective for Loan Prospector submissions and Freddie Mac Settlement Dates on or after March 15, 2012, Freddie Mac will also permit Sellers to use HVE to determine the value of certain Mortgaged Premises securing Freddie Mac Relief Refinance MortgagesSM–Open Access. For using HVE messages with certain Relief Refinance Mortgages–Open Access, refer to the resources referenced in the “Additional Resources” section below.**




Understanding the Feedback Messages Returned

The Y0, Y1 and Y2 messages include information provided directly from the automated valuation model, HVE. The remaining messages, Y3, Y4, Y5 and Y6 provide supplemental information from Loan Prospector to assist you in your review of the appraisal report.

LOAN PROCESSING INFORMATION	
4B	790 is the Loan Prospector Indicator Score from TRW (Experian) for TEST RROMA-09.
Y0	145000.00 is the HVE point value estimate of the subject property.
Y1	0.125 is the HVE Forecast Standard Deviation of the HVE point value estimate of the subject property.
Y2	High is the HVE Confidence Level of the HVE point value estimate of the subject property.
Y4	The HVE point value estimate returned does not indicate Freddie Mac's acceptance of the appraised value or purchase price entered for the subject property. The Lender will continue to be responsible for the property appraisal as well as representations and warranties of the appraisal, regardless of the HVE Market Value.
Y5	The percentage difference between the estimated/appraised value or purchase price and the HVE point value estimate of the subject property is +23%.
Y6	Review for Accuracy: The Estimated Value of Property or Net Purchase Price submitted for this transaction may be excessive for the local market. The appraisal should be carefully reviewed for this transaction.

Information Provided Directly From Home Value Explorer	
Message Code	Message Explanation
Y0	HVE Point Value Estimate – An estimate based on a Freddie Mac statistical model that assumes average marketability and condition for the property.
Y1	Forecast Standard Deviation (FSD) – A statistical measure of the accuracy of the HVE point value estimate. The lower the FSD, the smaller the error in predicting actual market value.
Y2	Confidence Level (High, Medium, Low) Confidence Level is derived from the FSD and is summarized within High, Medium and Low value ranges: <ul style="list-style-type: none"> ▪ High = FSD of .001 to .130 ▪ Medium = FSD of .131 to .200 ▪ Low = FSD of .201 to .300

Informational Messages Provided by Loan Prospector																																			
Message Code	Message Explanation																																		
Y3	No HVE Point Value Estimate – Indicates Loan Prospector could not obtain a HVE point value estimate for the subject property.																																		
Y4	HVE Point Value Estimate Disclaimer – Indicates a HVE point value estimate is not a substitute for an appraisal. Representations and warranties of the appraisal of the subject property are still required.																																		
Y5	<p>HVE Variance – A calculation* of the percentage difference between the HVE value and the lowest submitted valuation. The borrower's estimate of value will be used until the appraised value is received and submitted to Loan Prospector. Once the appraised value is submitted, it will be compared to the purchase price and the lowest value will be used in the calculation with HVE.</p> <p>*HVE Variance % = $\frac{\text{Lesser of appraised value/estimated value or purchase price} - \text{HVE point value estimate}}{\text{Lesser of appraised/estimated value or purchase price}}$</p> <p>HVE Variance Freddie Mac analysis has shown a correlation between the HVE variance percentage and the risk of inflated valuations. The higher the percentage HVE variance, the higher the risk, or likelihood, the appraisal may be inflated. The chart below describes the HVE variance percentage by risk level:</p> <p style="text-align: center;">HVE Variance Percentage Correlates to Likelihood of an Inflated Appraisal</p> <table border="1" style="margin-left: auto; margin-right: auto;"> <thead> <tr> <th rowspan="2">HVE Variance*</th> <th rowspan="2">Purchase</th> <th colspan="2">Refinance</th> </tr> <tr> <th>0-70% LTV</th> <th>71%+ LTV</th> </tr> </thead> <tbody> <tr> <td>Appraisal < HVE</td> <td style="background-color: #008000; color: white; text-align: center;">Very Low Risk</td> <td colspan="2" style="background-color: #90EE90; text-align: center;">Low Risk</td> </tr> <tr> <td>Appraisal ≥ HVE by...</td> <td></td> <td></td> <td></td> </tr> <tr> <td>0-10%</td> <td style="background-color: #90EE90; text-align: center;">Low Risk</td> <td style="background-color: #90EE90; text-align: center;">Moderate Risk</td> <td style="background-color: #90EE90; text-align: center;">Moderate Risk</td> </tr> <tr> <td>11-20%</td> <td style="background-color: #FFD700; text-align: center;">Moderate Risk</td> <td colspan="2" style="background-color: #FFD700; text-align: center;">Higher Risk</td> </tr> <tr> <td>21-25%</td> <td style="background-color: #FFD700; text-align: center;">Higher Risk</td> <td colspan="2" style="background-color: #FF4500; text-align: center;">Very High Risk</td> </tr> <tr> <td>26-30%</td> <td style="background-color: #FF4500; text-align: center;">Higher Risk</td> <td colspan="2" style="background-color: #FF0000; text-align: center;">Highest Risk</td> </tr> <tr> <td>>31%</td> <td colspan="3" style="background-color: #FF0000; text-align: center;">Highest Risk</td> </tr> </tbody> </table> <p style="text-align: center;"><i>The higher the HVE Variance percentage, the more likely the appraisal is inflated.</i></p> <p>*Difference between the HVE point value estimate and the appraisal</p>	HVE Variance*	Purchase	Refinance		0-70% LTV	71%+ LTV	Appraisal < HVE	Very Low Risk	Low Risk		Appraisal ≥ HVE by...				0-10%	Low Risk	Moderate Risk	Moderate Risk	11-20%	Moderate Risk	Higher Risk		21-25%	Higher Risk	Very High Risk		26-30%	Higher Risk	Highest Risk		>31%	Highest Risk		
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Message Code	Message Explanation
Y6	<p>Excessive Value Message – Returned if the HVE variance is $\geq +20.01\%$.</p> <p>As indicated above, with the HVE feedback messages, you may <u>or</u> may not receive the excessive value message (Message Code Y6).</p> <p>When the Excessive Value Message (Y6) Is Returned</p> <ul style="list-style-type: none"> If the excessive value message is returned, this means the HVE variance is greater than 20 percent (see ). Loan Prospector has determined that, based on the information obtained from HVE and the information you provided (estimated value, appraised value or purchase price), there is an increased probability that the appraisal may be inflated. Appraisal results that receive the excessive value message have the highest risk of potentially inflated values. <p> The HVE variance is rounded to the nearest whole number in the results, therefore, if the HVE variance is $\geq +20.01\%$, then the “Y6” excessive value message is returned.</p> <p>When the Excessive Value Message (Y6) Is Not Returned</p> <p>Assess the risk of potentially inflated appraisal values for loans where the HVE variance is less than 20 percent and the excessive value message is not returned. If the HVE variance percentage exceeds 10 percent and approaches 20 percent, the potential for inflated appraisal values increases significantly, as shown in the variance chart above. However, this does not mean the appraised value or purchase price entered for the subject property is acceptable. The Seller retains the responsibility for reviewing the appraisal and ensuring the validity of the results, regardless of whether the excessive value message is returned.</p> <p> Establish specific criteria for underwriters regarding the HVE variance percentage, which would need appraisal review escalation; and use the HVE variance chart as the basis for establishing these guidelines in evaluating the appraisal results and determining which appraisals need additional review. For results in the higher risk category, additional review of the appraisal is suggested as a best practice to determine whether the appraisal data supports the market value provided.</p>

Using the HVE Messages When Underwriting the Appraisal Report

Your review and evaluation of the appraisal information in accordance with Freddie Mac recommended best practices and guidelines should provide a conclusive determination of the validity of the appraisal's market value. In addition to the information provided above, the following can also be used to assist you in underwriting the Appraisal Report when using the HVE messages of all loans, but have particular relevance to your evaluation of appraisals where Loan Prospector has returned the excessive value message.

HVE Forecast Standard Deviation (FSD) – carefully review the appraisal on properties where the HVE results indicate a high FSD and a low Confidence Level.

- Like other statistically derived models, comparing a sample of HVE point value estimates with actual property sales prices would show a distribution of values that would include some statistical outliers. Statistical outliers are identified by the FSD and Confidence Level returned with the point value estimate. A FSD above .200 equates to a low confidence level and means there may be greater error in predicting the actual market value.
- The point value estimate will generally be less accurate on properties located in areas with a lack of recent sales activity, or areas with significant variation in the characteristics of the housing stock. A rural property would be an example of this type of situation, and thus, would mostly likely have a point value estimate with a higher FSD and lower Confidence Level.

- A property with a point value estimate with a high FSD and low Confidence Level is more difficult to value by any method, and as a result, a more careful review of the appraisal is needed. This is also an indicator that the appraiser has the same limited data to work with to derive a value.

Property Condition and Marketability – look for information in the appraisal that would support the valuation of the subject property as higher-than-average quality, condition or marketability.

- Focus on the relative quality, condition and marketability of the property to comparable sales in its local market. HVE assumes average quality, condition and marketability for all properties, so consider any differences in the subject property to a local average property that would support the appraiser's valuation.
 - Look for evidence of renovation and/or a higher quality of construction relative to the local market.
 - Determine whether the property is in a beneficial location such as waterfront, adjacent to a park or golf course, or having a skyline view.

Local Market Trends and Conditions – carefully review the information provided by the appraiser on Form 71.

- Review the comparable sales used by the appraiser and local market conditions affecting the value.
- Review the information provided on Form 71 relative to REOs and short sales. Evaluate whether the appraiser used distressed sales as comparable sales. In markets experiencing a high rate of decline and distressed sales, it would be common for an appraiser to include distressed sales as comparables. Distressed sales should not be used as comparables in a market that is not experiencing widespread decline.



Where the local market is improving, it is possible for the model point value estimate to slightly lag the current market activity. Conversely, if the market is declining, the model may be lagging on the positive side.

HVE's Reliance on the Accuracy of Public Records Data and Tax Assessor Records – keep in mind that HVE relies on data available through public record sources, such as tax assessor data, as well as Freddie Mac's portfolio.

- Accurate model valuations are dependent upon complete and accurate data. If the model has inaccurate or incomplete data on a property, the point value estimate will be affected.
- For example, additions or significant renovations to a property may not be captured in the tax assessor data used to build the model, resulting in a significant difference between the point value estimate and the appraised value.



When the underwriter concludes that the appraisal information supports the market value due to the quality, condition, local market conditions or other factors, the review is complete and no additional escalation is necessary.

Escalating the Appraisal for Additional Review – Freddie Mac recommends Sellers establish specific criteria for escalating the review of appraisals based upon the potential collateral valuation risk.

- After considering all of the above factors during the appraisal review and the underwriter concludes that the appraisal does not provide sufficient information to support the higher value, it is recommended that the following escalation process be pursued to determine the validity of the appraisal:
 - Escalate the appraisal for additional review by a senior underwriter or in-house appraiser, if available
 - If upon additional review, the reviewer still has concerns about the value; the appraiser should be contacted to resolve any questions and/or concerns. 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
 - If valid concerns about the appraisal are resolved with the appraiser, the appraiser fully documents the rationale for any changes made to the appraisal, including changes in value and/or the use of additional comparables, or
 - If valid concerns about the appraisal cannot be resolved with the appraiser, reject the original appraisal and obtain a second appraisal
 - If the appraiser amends the value or a second appraisal is obtained, update the appraised value in Loan Prospector and resubmit the loan.

When HVE Information Is Not Available for the Submitted Property Address

If Loan Prospector is unable to obtain the HVE information for the submitted address, you will receive the following message:

Y3 Unable to return the HVE point value for the submitted address.

Common Reasons HVE Results May Not Be Available	
1	The submitted property address could not be verified to United States Postal Service standards.
2	The property is a newly constructed home and information on the property is not yet available to HVE.
3	The property may be located in an area where HVE does not have enough raw data to generate a value with a sufficient degree of confidence, for example, rural properties.
4	The property is a manufactured home or a 3- to 4-unit property. HVE does not provide data on these property types.
5	The loan is a FHA, VA or Jumbo Mortgage.
6	In some areas, HVE does not have assessment records and must complete the valuation using the repeat sales method ONLY. In that instance, HVE must have prior transaction information in order to value. If no prior sales data is available in the area, then there will be no valuation.
7	HVE performs statistical checks on its data. If the variance on that data is too high, HVE will not produce a value.

Additional Resources

Refer to the following resources for additional help when underwriting the appraisal report:

- *Single-Family Seller/Servicer Guide* (Guide)
 - Guide Section 44.15: Property Description and Analysis
 - Guide Form 71: Market Conditions Addendum to the Appraisal Report
 - Guide Bulletin 2009-18 Exhibit – provides detailed underwriting best practices for the review of appraisal information
- Learning Center Resources (www.FreddieMac.com/learn)
 - Appraisal Review Reminders Quick Reference
 - Best Practices for Transactions Involving Possible Property Flips Quick Reference
 - Fraud Prevention and Quality Control Best Practices

Refer to the following resources for additional information for using the HVE messages for **Relief Refinance Mortgages–Open Access**:

- *Single-Family Seller/Servicer Guide* (Guide)
 - Guide Chapter B24.3(g)
- Learning Center Resources (www.FreddieMac.com/learn)
 - Using Home Value Explorer (HVE) via LoanProspector.com for Relief Refinance Mortgages

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