



Improving Appraisal Quality and Accuracy

Evaluating the quality, integrity, and accuracy of appraisals and appraisal reviews is critical to advancing responsible lending standards in today's market. To help you proactively develop controls that may strengthen your appraisal management and help determine appraisal quality, Freddie Mac is providing guidance focused on improving the quality and accuracy of collateral valuations for mortgages delivered to Freddie Mac:

- Recommendations for Effective Appraisal Management and Controls
- Guidance on Using Appraisal Evaluation Tools to Strengthen the Appraisal Review Process
- Additional Guidance on Reviewing Home Value Explorer® (HVE®) Results in Loan Prospector®

Recommendations for Effective Appraisal Management and Controls

In support of our effort to improve the quality and accuracy of collateral valuations for the mortgages we purchase, an effective appraisal management process within your organization is key. To help you prevent many of the most common errors from occurring during the appraisal management process, we are providing you with our recommendations on appraisal management and appraisal review.

Our recommendations are based on our analysis of the appraisal management and controls process used by many of our Sellers. We've identified the following actions that are key to supporting a strong collateral management process:

- Document and monitor compliance with, and effectiveness of, policies and procedures.
- 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 the performance of appraisers, AMCs, appraisal reviewers, and proactively manage against specific performance benchmarks.
- Conduct due diligence of AMC policies, processes and key controls at the time of approval and on an ongoing basis.
- Apply appraisal review processes to all appraisals and vary them based on predefined levels of risk.

You should continue to monitor policies and procedures to support compliance with the [Appraisal Independence Requirements](#) announced in [Single-Family Seller/Servicer Guide \(Guide\) Bulletin 2010-23](#) issued on October 15, 2010, and include a separation of appraisal functions from production.

We are also providing you with our new [Components of an Effective Appraisal Management Process](#) job aid highlights our general expectations for an effective appraisal management process. This tool includes best practices on choosing qualified appraisers and AMCs and managing appraisal quality and reviews. You may also use this valuable resource to help evaluate your existing appraisal processes and controls.

Please note these are only suggested recommendations. Freddie Mac encourages you to implement additional practices and procedures, as you deem necessary, to fit your particular business operations in the collateral and appraisal areas. Also, remember you must comply with the requirements specified in the Guide, and other Purchase Documents.

Guidance on Using Appraisal Evaluation Tools to Strengthen the Appraisal Review Process

Automated valuation models (AVMs) and other risk assessment tools are valuable in managing the appraisal review process. They can be used to verify appraisal information and provide additional comparable sales data to be considered or flag potentially inflated values. Freddie Mac recommends Sellers establish specific criteria for escalating the review of appraisals based upon the potential collateral valuation risk. AVMs and other evaluation tools can assist Sellers in establishing these guidelines for appraisal review and escalation of potential collateral valuation issues.

To help you strengthen your appraisal management process, we encourage the use of Freddie Mac's Home Value Suite, which includes [HVE](#) and [Home Value Calibrator® \(Calibrator\)](#), or other independently tested appraisal evaluation tools. The Home Value Suite tools offer proven effectiveness for use in evaluating appraisals. HVE is consistently rated among the top AVMs in the industry for accuracy and coverage through our participation in testing with third-party AVM testing companies and with large lenders. We use the results of these tests to continue to improve the performance of our model.

All lenders can benefit from Freddie Mac's proprietary data, modeling expertise, and industry knowledge by utilizing the Home Value Suite. The Home Value Suite tools provide a service that is lower in cost than many other appraisal evaluation tools in the market and can be ordered through one of our [six participating distributors](#).

We recognize that lenders use a wide range of appraisal evaluation tools available in the market. To help you evaluate the effectiveness of other appraisal evaluation tools outside of the Home Value Suite, we suggest you check out information provided by the Collateral Assessment & Technologies Committee (CATC).

CATC is an industry group comprised of members that either develop automated valuation models and other tools, or provide services used in the evaluation of those models and tools through independent testing. They are focused on the transparent and objective evaluation, implementation and application of AVMs and other collateral assessment tools and technologies. To evaluate AVMs and other tools, CATC offers their [Best Practices In Automated Valuation Model \(AVM\) Validation \(January 2009\) whitepaper](#).

Additional Guidance on Reviewing Home Value Explorer Results in Loan Prospector

In February 2010, we updated Loan Prospector to provide a [HVE](#) point value estimate and related feedback on the Loan Prospector Feedback Certificate. Now, to help you get the most from this free service, we are providing additional guidance on how to review and use the HVE results received on the Loan Prospector Feedback Certificate when reviewing appraisals. Be sure to [review our updated guidance](#) to help you use this service to more easily identify potentially inflated appraisal values that may need additional review early in the origination process.

Available Resources

Be sure to review our broad range of tools, references and training opportunities to help you improve the quality and accuracy of collateral valuations for mortgages delivered to Freddie Mac.

Tools and References

- [Reviewing Appraisals in Today's Mortgage Market](#)
- [Guide References](#)
 - Review [Guide Bulletin 2009-18](#) issued July 10, 2009
 - [Guide Section 44.15: Property Description and Analysis](#)
- [Components of an Effective Appraisal Management Process](#)
- [Best Practices for Underwriting Appraisals](#)
- [Best Practices for Transactions Involving Possible Property Flips](#)
- [Appraisal Review Reminders](#)

Training

- [Collateral Assessment with the Uniform Appraisal Dataset \(UAD\) webinar](#)
- [HVE Point Value Estimate in Loan Prospector Feedback webinar](#)
- [Reviewing Residential Properties](#)