

## Collateral Underwriter (CU) FAQs

Updated February 2015

Collateral Underwriter™ (CU™) is a proprietary appraisal risk assessment application developed by Fannie Mae to support proactive management of appraisal quality. CU is the latest addition to Fannie Mae's suite of risk management tools for lenders. Details and training schedules are provided on the [CU web page](#). New/updated questions in this document since the previous version (December 1, 2014) are indicated by **New** or **Updated**.

**Bookmark** <https://www.fanniemae.com/singlefamily/collateral-underwriter>

### Q1. **Updated** How is CU feedback provided?

CU feedback is available in two ways:

1) **Real-time feedback in UCDP:** Effective January 26, 2015, a CU risk score, flags, and messages are provided in real time after an appraisal is submitted to Fannie Mae through the Uniform Collateral Data Portal® (UCDP®). The CU risk score, flags, and messages are provided on the Fannie Mae tab and the UCDP Submission Summary Report. Any UCDP user that submits an appraisal to Fannie Mae has access to the CU risk score, flags, and messages.

2) **CU web-based user interface:** For in-depth appraisal analysis, the full CU application is available to Fannie Mae sellers via a web-based user interface (registration required).

Fannie Mae account teams are contacting lenders through a phased outreach approach to assist them with implementing the user interface, which is now available to approved Fannie Mae sellers. Approved sellers that want quicker access may reference the [CU User Interface Registration Guide](#) for self-service information.

*NOTE: It is critical that lenders obtain proper training for use of the CU feedback, whether obtained through UCDP or the user interface. Training is available 24/7 via eLearning courses posted on the CU web page and also described in the [CU User Interface Registration Guide](#).*

Correspondents will have access to the web-based application later in 2015.

Other UCDP users that are not Fannie Mae sellers or correspondents – including appraisal management companies (AMCs) that have UCDP access as Lender Agents – can view the CU risk score, flags, and messages in UCDP but do not have access to the web-based application.

### Q2. **Updated** How should lenders use CU?

Keep in mind that to take advantage of CU findings and incorporate it into the review process, lenders must submit appraisals to UCDP prior to appraisal review.

CU is a tool intended to assist lenders in underwriting appraisals. Here are some important points about using CU successfully:

- Understand the limitations of automated analysis and be aware of potential property or neighborhood nuances.

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- CU is effectively predictive of appraisal defects, but there are false positives. Well-informed human judgment should take precedence over automated results.
  - The expectation is not to utilize the full CU functionality and information available in the CU user interface on every appraisal.
  - The various CU tools can be used to validate or dismiss potential red flags.
  - Fannie Mae does not instruct or suggest to lenders that they ask the appraiser to address all or any of the 20 comparables that are provided by CU for most appraisals.
  - Carefully review the appraisal report before seeking additional clarification from the appraiser based on CU findings.
  - The risk analysis performed by CU is for use by the lender in their analysis of the appraisal report; excerpts may be shared with the appraisers in proper context upon completion of the lender's due diligence review (see Q3).

It is very important to take advantage of CU training to understand how to use the CU findings in UCDP and the user interface.

**Q3. New How should lenders use CU findings to inform conversations with appraisers?**

Fannie Mae expects lenders to use human due diligence in combination with the CU findings, and will actively follow up with lenders who are reported to be asking appraisers to change their reports based on CU findings without any further due diligence by the lender.

Fannie Mae encourages lenders to carefully review the appraisal report – including all commentary – before seeking clarification from the appraiser. Don't assume the appraiser is wrong just because you see a CU message. Taking messages or alternative sales at face value and simply asking your appraiser to address them is neither effective nor efficient. CU is intended to supplement a lender's human due diligence. After completing a thorough review, lenders should be able to have constructive dialogue with appraisers to resolve specific appraisal questions or concerns. Lenders should not, however, make demands or provide instructions to the appraiser based solely on automated feedback.

Specific information or excerpts from the CU findings on which the lender seeks clarification may be shared with an AMC or appraiser, with appropriate context and **after analyzing the CU findings to determine whether there is an issue that the AMC/appraiser may need to address**. The legal terms and conditions for CU prohibit:

- using the licensed application in a manner that interferes with the independent judgment of an appraiser,
- providing access to CU's web-based user interface to third parties (including appraisal management companies (AMCs) and appraisers), and
- providing copies or displays of Fannie Mae reports that contain CU findings to AMCs and appraisers (note that AMCs who are registered to use UCDP as Lender Agents will see the CU risk score, flags, and messages available through UCDP).

**Q4. Updated May a lender share access credentials for UCDP and/or CU with a trusted service provider?**

No. For data security and business reasons, Fannie Mae technology usage terms do not allow lenders to share technology application credentials with third parties.

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Also note that the legal terms regarding Collateral Underwriter™ (CU™) and the Uniform Collateral Data Portal® (UCDP®) found in the Single-Family Shipping & Delivery Applications Schedule of the Fannie Mae Software Subscription Agreement prohibit Licensees from:

- using the licensed application in a manner that interferes with the independent judgment of an appraiser,
- providing access to CU's web-based user interface to third parties (including appraisal management companies (AMCs) and appraisers), and
- providing copies or displays of Fannie Mae reports that contain CU findings to AMCs and appraisers (note that AMCs who are registered to use UCDP as Lender Agents will see the CU risk score, flags, and messages available through UCDP).

**Q5. New If lenders are prohibited from providing copies or displays of reports that contain CU findings to third parties, can they still use Lender Agents to work on their behalf?**

Yes. Lender Agents who submit appraisals to UCDP on behalf of their lender clients have access to the CU findings through the Fannie Mae tab in UCDP, on the Submission Summary Report (SSR), or through a direct integration with UCDP if applicable. Both lenders and Lender Agents acting on lenders' behalf are prohibited from distributing the CU Print Report or the SSR, making demands of or providing instruction to AMCs/appraisers based solely on the CU automated output, or using CU to interfere with the independent judgment of the appraiser. (See Q3 for information about how to use CU findings to interact with appraisers.)

Note that a lender using a Lender Agent such as an AMC is fully responsible for compliance with Fannie Mae's requirements, just as if they did the appraisal review in-house, and must have policies and procedures in place to review compliance by their third-party agents.

**Q6. New Are lenders and appraisers expected to address all 20 alternative comparable sales that may be identified by CU?**

No. CU generates up to 20 alternative comparables for the purpose of providing context for the appraisal report reviewer. Fannie Mae's expectation is not that all alternatives be addressed or that only the CU top-ranked comps be used. Lenders may examine the alternative comparables in the course of reviewing an appraisal report to determine if their use may result in a different conclusion about value from that provided by the appraiser.

**Q7. New Does CU favor lower-priced comparables and encourage under-valuation?**

No. Appraiser-provided comparables are analyzed by CU and ranked against a pool of available sales based on physical characteristics, location, and sale date. The sale prices of these comparables is not a factor in the ranking. High CU risk scores may be due to potential *under*-valuation, as well as potential *over*-valuation, or other factors. CU does not take a "lower is better" approach.

**Q8. Is technology integration required to use CU?**

The CU web-based user interface is accessed through a URL with *no* technology integration required.

The CU risk score, flags, and messages are provided on the Fannie Mae tab in UCDP. Users that access UCDP through a vendor service should check with their vendor if there are any issues with accessing the CU findings.

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**Q9. Is there a fee for CU?**

No. Fannie Mae developed CU with the primary objective of improving appraisal quality and collateral risk management for Fannie Mae and its lender partners. To help lenders more effectively and efficiently identify issues with appraisals, we are making CU available at no cost as one more value-add risk assessment tool for our lenders.

**Q10. Does use of CU provide any waiver of selling representations and warranties, similar to the limited waiver of representations and warranties offered with use of Desktop Underwriter® (DU®)?**

Fannie Mae is not currently offering representation and warranty relief with the use of CU. However, CU will be integrated with DU in April 2015 to give lenders a more holistic view of risk by enabling display of the CU risk score, flags, and messages in DU. (See the [DU Version 9.2 April Update Release Notes](#) for details.)

The integration will provide a foundation for future representation and warranty relief on property value. Fannie Mae is working with our regulator, FHFA, on details and timing, and we will provide more information as it becomes available.

**Q11. Is use of CU mandatory for Fannie Mae sellers?**

Fannie Mae strongly encourages lenders to utilize the CU risk score, flags, and messages provided upon submission of an appraisal to UCDP, and to access the web-based application for in-depth analysis, but use of CU is not required. Review the available training and other resources for more information about the benefits of the CU feedback.

**Q12. What is meant by a “CU risk score”?**

CU provides a numerical risk score from 1.0 to 5.0, with 1 indicating the lowest risk and 5 indicating the highest risk. Risk flags and messages identify risk factors and specific aspects of the appraisal that may require further attention. Details are available in the eLearning course [Understanding the Collateral Underwriter Risk Score, Flags, and Messages](#).

**Q13. How much geographic coverage does CU provide?**

CU is able to score about 97 percent of appraisals submitted from the 50 U.S. states and the District of Columbia. Properties in the U.S. territories cannot be analyzed. The majority of unscored appraisals (“999” messages) are due to geocoding limitations.

**Q14. Are there appraisals that do not receive a CU risk score?**

Yes. Coverage may vary slightly from market to market, but CU is able to score approximately 97% of appraisal submissions nationwide. The primary reason for unscored appraisals is an inability to geocode the subject property or an inadequate number of appraiser-provided comparables. Rarely is a lack of alternative sales observations the cause of an unscored (“999”) appraisal. Currently, CU is unable to geocode properties in the U.S. territories (Puerto Rico, the Virgin Islands, Guam, American Samoa, and the Northern Mariana Islands). In some cases, CU may be unable to geocode new construction because the address is new and not yet recognized by the geocoding service.

CU analyzes appraisals in Uniform Appraisal Dataset (UAD) format on appraisal forms 1004 (Uniform Residential Appraisal Report) and 1073 (Individual Condominium Unit Appraisal Report). Appraisals submitted on other forms, including the following, are not analyzed: Form

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2055, Exterior-Only Inspection Residential Appraisal Report; Form 1075, Exterior-Only Inspection Individual Condominium Unit Appraisal Report; Form 1004C, Manufactured Home Appraisal Report; Form 1025, Small Residential Income Property Appraisal Report; Form 2090, Individual Cooperative Interest Appraisal Report; and Form 2095, Exterior-Only Inspection Individual Cooperative Interest Appraisal Report.

When CU is unable to provide a risk score, a message to that effect will be displayed (for details about CU messages, see the eLearning course [Understanding the CU Risk Score, Flags, and Messages](#) or the CU User Guide, which is in the user interface).

**Q15. How does CU handle new construction?**

CU does not treat new construction any differently than existing properties. Appraiser-provided comparables are ranked against a pool of alternative sales identified by the model based on a combination of physical features, location, and date of sale. The significance of each factor or property characteristic is model-derived and market-specific. If other nearby new construction sales are available, they will be considered for inclusion in the comparable pool, but CU will not select alternative sales simply because they are new construction. Location, date of sale, and physical features such as square footage, lot size, bathrooms, quality, view, etc. are also considered.

**Q16. How does CU handle properties in rural locations?**

In rural areas, it may be necessary for the appraiser to select sales from a greater distance and further back in time than in areas with higher sales density and more homogeneous housing stock. CU compares the appraiser-provided comps against a pool of observed sales transactions in the subject market and not against arbitrary, “rule of thumb” guidelines. CU will not provide a high risk score solely because the comparables are dated, located several miles away, or require significant adjustment from the appraiser. If CU’s comparable selection model finds the appraiser-provided comparables to be the best available, the appraisal will likely receive a low risk score if no other potential issues are detected.

**Q17. How are the CU risk score, flags, and messages different from the previous Fannie Mae Proprietary Messages in UCDP?**

The Fannie Mae Proprietary Messages in UCDP were rules-based alerts focused on data reasonableness, property eligibility, and policy compliance. CU is model-based and performs a more comprehensive analysis of data integrity, comparable selection, adjustments, and reconciliation.

**Q18. Is there an interconnection between the previous Fannie Mae Proprietary Messages in UCDP and the CU risk score, flags, and messages?**

All but 35 of the Fannie Mae Proprietary Messages in UCDP were retired in December 2014.

The severity status for 21 Fannie Mae Proprietary Messages in UCDP was modified in January 2015 from a warning message that was automatically overridden to a hard stop that requires a manual override or the submission of a corrected appraisal in UCDP (see [UCDP Notification](#)). Although there is a very small failure rate for those 21 items, when a hard stop is issued on one of them, it also impacts the Property Eligibility/Policy Compliance risk flag and triggers an elevated CU risk score. Also note that a hard stop on one of these 21 items could result in a difference in the UCDP submission status between the GSEs (Fannie Mae and Freddie Mac). These hard stops cause a Not Successful submission status in UCDP until a manual override is

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provided. Note that entering an override reason in UCDP will not clear the Property Eligibility/Compliance risk flag in CU, nor will it lower the CU risk score.

**Q19. Does the CU risk score impact the “Successful” submission status of the appraisal in UCDP?**

Except for the 21 hard stop messages (see Q18), the CU risk score, flags, and messages provide independent feedback on the appraisal for the submitter’s consideration, and do not impact the submission status in UCDP.

The CU risk score, flags, and messages are on the Fannie Mae tab and the Submission Summary Report (SSR). Unlike some UCDP and Fannie Mae Proprietary Messages that require action, CU messages do not need to be cleared – they simply highlight aspects of the appraisal that may require further attention.

**Q20. Are appraisals rescored when resubmitted to UCDP with corrections?**

Yes. Upon resubmission, CU analyzes the revised appraisal as if it were a new appraisal. Depending on the nature of the revisions, the CU risk score, flags, and messages may or may not change.

Note, however, that use of a manual override to clear a hard stop in UCDP would not result in any changes to the CU risk score.

**Q21. What should lenders do if they see different results between the CU risk score and results from other appraisal review tools?**

Fannie Mae is making CU available for our lenders to use independently or in conjunction with other tools they deem appropriate for their business process. Lenders that deliver loans to Fannie Mae are responsible for reviewing appraisals to confirm that they meet our policy guidelines, and must make their own decisions about review tools that meet their business needs and how to utilize the results.

**Q22. What CU training is available?**

Training information and other implementation details are provided on an ongoing basis, including eLearning training courses, job aids, FAQs, and other resources to support implementation and use of CU (see the [CU web page](#)).

**Q23. Is Fannie Mae providing information about CU to appraisers and AMCs?**

Fannie Mae’s appraisal policy and strategy teams regularly communicate with the appraisal community through participation in industry events and outreach to key industry groups. Information about our efforts to improve appraisal quality has been shared with the appraisal industry for the past few years, dating back to 2008 when we initiated appraisal data standardization efforts

Information about CU has been provided to the appraisal community, and Fannie Mae invites appraisers and AMCs to leverage our training resources to learn more about CU.

**Q24. Do appraisers have access to CU?**

No, appraisers do not have access to CU. CU was developed as an appraisal review tool for internal analysis and is now available to Fannie Mae lenders for review of appraisals they have submitted through UCDP. CU will review an appraisal only after it is submitted to UCDP, which

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then triggers the model that includes appraisal data to perform an analysis. CU *does not* function as an independent property database that allows users to enter an address and receive associated data.

Appraisers are welcome to use the resources on the [CU web page](#), including viewing the recorded on-demand trainings:

- *Introduction to Collateral Underwriter* provides basic information about CU's features, including screenshots.
- *Understanding the CU Risk Score, Flags, and Messages* provides information to help lenders use the CU feedback in their appraisal review process.
- *CU User Interface Basic Training* covers basic use of CU functionality and navigation for end users of CU's web-based user interface for efficient and effective use

Additional training materials will be posted as they become available.

**Q25. Will the use of CU as an appraisal review tool by Fannie Mae lenders result in more work for appraisers, who may be asked to make changes based on the CU findings?**

Fannie Mae's current requirements and expectations for lenders have not fundamentally changed. The Fannie Mae *Selling Guide* states in [Section B4-1.1-02: Lender Responsibilities](#), that the lender is responsible for (among other requirements): "ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy..." In the process of underwriting the appraisal, lenders should ask appraisers to provide any clarifications or updates required to satisfy the lender that Fannie Mae's requirements are met.

A number of appraisal review tools are available in the market and in use by lenders. Appraisers also have access to much of the market data used in the course of appraisal review and can reasonably be expected to anticipate many questions that might arise, and address them proactively in comments on the appraisal report. Appraisers that make a good faith effort to use the most similar comparables, provide accurate and consistent data, and support their adjustments with market data and analysis can generally expect a minimum of CU feedback that would cause a follow-up request from the reviewer. CU's analysis may in some cases help the lenders' appraisal reviewers better understand the appraiser's rationale and possibly reduce back and forth between the lender and the appraiser.

For additional discussion related to this topic, see [Lender Letter LL-2015-02, Appraisal Tools, Processes, and Policies](#).

**Q26. Will Fannie Mae purchase loans that receive high CU risk scores and/or risk flags?**

Yes. High CU risk scores can be considered warnings, but do not preclude lender delivery of the loan to Fannie Mae. It is highly recommended, however, that lenders perform appropriate due diligence on appraisals with a high CU risk score and/or risk flags prior to loan delivery.