

Fannie Mae's Property Inspection Waiver Offering: A Primer

Brief Overview

October 31, 2017

Fannie Mae's robust credit risk management process is grounded in a vast amount of data, enabling an analytical approach to risk management. Our industry leading automated underwriting system, Desktop Underwriter® (DU®) along with our proprietary appraisal analytics tool, Collateral Underwriter® (CU™) are key components of our vision to deliver a certain, safer experience backed by a fully digital mortgage process.

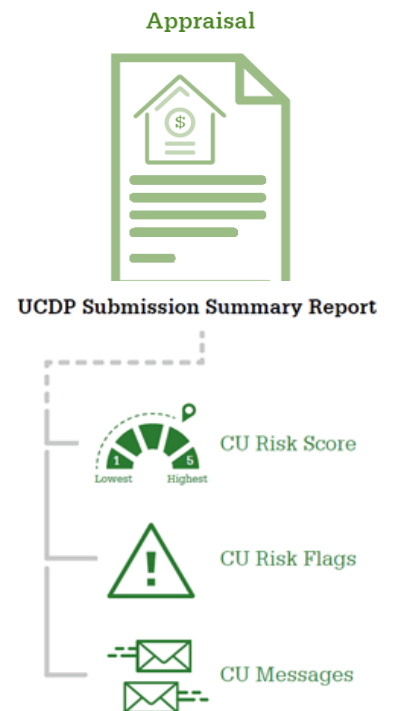
Through DU, Fannie Mae has offered Property Inspection Waivers, or PIWs on a limited basis for many years for certain low-risk loans. PIW is an offer to waive the appraisal for certain eligible transactions. CU has been in use for more than five years now and has a database of more than 27 million (and growing) appraisal reports. That big data combined with CU's advanced, proprietary appraisal risk analytics has greatly enhanced Fannie Mae's ability to measure collateral risk. Leveraging the combined power of DU and CU allows us to offer our lenders Day 1 Certainty™ with a competitive PIW offering. Our PIWs deliver greater speed, simplicity, and certainty to lenders and borrowers while bringing stronger risk management and promoting greater digitization of data and processes to the mortgage industry.

Previously, in the offering documents for each of our Connecticut Avenue Securities™ (CAS) transactions, we disclosed the aggregate percentage of loans in the associated CAS reference pool that received a PIW. In conjunction with the expanded Day 1 Certainty offering, we have enhanced our loan-level disclosure files and now include a loan-level PIW field in both our CAS and Credit Insurance Risk Transfer™ (CIRT™) disclosures. The new field will be populated for at-issuance files published on and after October 2017, as mentioned in our recent [announcement](#). Fannie Mae continues to enhance its CAS disclosure data set based on investor feedback and to provide greater transparency into the loan origination process.

Collateral Underwriter



CU is a proprietary appraisal risk assessment application developed by Fannie Mae to support proactive management of property valuation. CU uses statistical models and algorithms built on a database that collects over 20,000 new appraisals daily to evaluate appraisal quality and drive greater confidence in the valuation of properties securing the loans acquired by Fannie Mae. It was developed leveraging a vast amount of standardized (Uniform Appraisal Dataset-compliant) appraisal data collected through the Uniform Collateral Data Portal (UCDP) and has been used by Fannie Mae since 2012 for our own appraisal risk management as part of our loan-level quality control review process. CU deploys sophisticated analytics to evaluate each appraisal and assigns a score designed to capture the eligibility, quality and valuation risks associated with the appraisal (on a scale of 1 – 5, minimal risk to more risk). It then provides targeted messages regarding the potential areas of risk to help the reviewer in assessing the appraisal. In 2015, we made it available to lenders for free and integrated it into DU to enable our lender customers to evaluate the potential riskiness of an appraisal before a loan is submitted to Fannie Mae. See our demo on CU [here](#).





Eligibility for a PIW

PIWs are offered only for a subset of Fannie Mae loans. With Fannie Mae’s rollout of Day 1 Certainty in October 2016, we enhanced the existing PIW process in DU to leverage CU’s analytical power. CU analytics combined with product eligibility requirements will determine if a lender is able to offer a PIW to a borrower. To be considered for a PIW offer, the subject property must have a prior appraisal in CU. CU will evaluate the quality of the prior appraisal, including a review for overvaluation issues. If the prior appraisal was flagged as potentially overvaluing the property, or the appraisal could not be scored, that prior appraisal will not be used and a PIW will not be offered. If CU has sufficient confidence in the lender’s submitted property value, the loan may be eligible for a PIW, subject to additional eligibility requirements including a full credit and underwriting review in DU.

Additional PIW eligibility requirements are shown in the table below.

Eligible and ineligible transactions for PIW (effective August 19, 2017)

Eligible Transactions	Ineligible Transactions
<ul style="list-style-type: none"> • One-unit properties, including condominiums • Limited cash-out refinance transactions: <ul style="list-style-type: none"> • principal residences and second homes up to 90% LTV/CLTV for • investment properties up to 75% LTV/CLTV • Cash-out refinance transactions: <ul style="list-style-type: none"> • principal residences up to 70% LTV/CLTV for • second homes and investment properties up to 60% LTV/CLTV • Purchase transactions: <ul style="list-style-type: none"> • Principal residences and second homes up to 80% LTV/CLTV • Loan casefiles that receive an Approve/Eligible recommendation 	<ul style="list-style-type: none"> • Properties located in a disaster-impacted area • Construction, and construction-to-permanent loans • Two- to four-unit properties • Loan casefiles where the value of the subject property provided to DU is \$1,000,000 or greater • HomeStyle® mortgage products (Renovation and Energy) • DU Refi Plus™ loan casefiles • Texas 50(a)6 loans • Leasehold properties, community land trusts, or other properties with resale restrictions • Cooperative units and manufactured homes • DU loan casefiles that receive an ineligible recommendation • Loans for which the mortgage insurance provider requires an appraisal • Loans for which rental income from the subject property is used to qualify

It is important to note that lenders may not solicit borrowers for refinance or purchase based on a PIW offer. DU will only issue a PIW offer after the lender has entered the loan application details into DU and submitted the loan casefile for a risk assessment.

The majority of transactions do not receive a PIW offer, which means they will require an appraisal by a qualified residential appraiser to establish the market value. Full appraisals are important in establishing the market value of homes, and provide valuable input to our appraisal database to support Collateral Underwriter analytics and future innovations.



Acceptance of a PIW

When a DU loan casefile receives a PIW offer and it is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the market value for the subject property and provides relief from enforcement of representation and warranties on the value, condition, and marketability of the property. The lender is required to represent and warrant that the data (other than the value estimate) submitted to DU is complete and accurate, and lenders must order an appraisal if they have reason to believe that the property's current market value should be confirmed. For example, a property located in an area impacted by a recent disaster must always have an appraisal. We believe that the PIW offering incents lenders to deliver high-quality appraisals to Fannie Mae and resolve overvaluation issues and other discrepancies because the existence of appraisal issues identified by CU for a given property could prevent that property from receiving a PIW offer on a future loan. We continue to monitor the number of PIWs offered and will recalibrate as necessary to ensure a responsible approach that balances the use of PIWs for mortgage origination efficiency with the need for full appraisals to support the housing market and continue building the industry's appraisal information database.

Moving toward the fully digital mortgage process

Fannie Mae is focused on leading the industry toward a future state appraisal process that leverages innovative solutions to improve the lender and customer experience for all originations, supporting a sustainable and healthy housing market. Our future vision is driven by a focus on data. Reducing paper by leveraging data and analytics will help to create a variety of solutions for property valuation. Today, we continue to focus on the data over documents approach, leading the digital mortgage transformation for the industry to reduce cost, time, and risk. Our data over documents approach is designed to streamline processes, improve loan manufacturing quality, and offer greater certainty to our customers.

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