Best Practice – Nationstar Mortgage Appraisal Review

Nationstar Mortgage is committed to providing the performance tools needed by our Correspondents to better manage their overall quality efforts. By focusing on this process, we are able to spotlight areas of concern that have the potential to delay loan purchase.

Nationstar Mortgage continues to see Appraisal oriented deficiencies trending within the loan submissions we receive. In this best practice, we focus on the Appraisal Review process and provide top trends, tools and resources that are available to you, and highlights of what our expectations are in terms of Nationstar Mortgage Appraisal Review requirements. Utilizing this information can assist you in the delivery of quality loan appraisals, and ultimately timely loan purchases.

APPRaisal REVIEW BEST PRACTICES

The following best practices are recommended in order to have a streamlined and efficient appraisal review process which will ultimately lead to less appraisal oriented risk to your firm:

1) **BE PROACTIVE** - When a high risk appraisal is received from an appraiser or AMC work with them pro-actively to address quality concerns. By having the appraiser correct bad data, non-supported adjustments, or add comparables to support (or rightfully adjust) the value opinion, and resubmitting the updated appraisal back through UCDP, Lenders can potentially lower the CU score. Proactively driving these updates/corrections with the appraiser or AMC then allows for the loan file to be delivered with its best appraisal quality foot forward.

2) **COMPARABLE SALES** - The primary drivers for elevated CU risk scores are failure to address comparables in closer proximity to the subject property and for condition/other adjustments not being supported by comparable data analysis.
   a. **PROXIMITY** - The closest sale is not always the best indicator of value but it cannot be ignored if it reveals noticeable differences in market acceptance or value opinion when compared to the appraiser’s comparables selected.
   b. **PROPERTY SIMILARITY** - If the appraiser is utilizing sales with a large disparity in property characteristics from the subject, assure the appraiser has adequately addressed these differences through the necessary adjustments or meaningful commentary. Examples of some of the more frequent undocumented disparities include materially different site sizes, finished basement comparisons, and/or large differences in Gross Living Area (GLA).

3) **PROCESS, PROCESS, PROCESS** - Have a diligent escalated appraisal review process for higher risk appraisals (e.g. CU risk scores of 4, 5 or 999, CU overvaluation message, rapid appreciation, etc.)

4) **SUPPORTING DOCUMENTATION** - After completion of any appraisal escalation assure your credit package is documented with the applicable analysis and/or any additional valuation tools utilized to support the final value opinion.

5) **COLLATERAL UNDERWRITER AGGREGATOR ACCESS** – Help us, help you! By providing us with CU aggregator access NSM gains transparency into the supporting appraisal data which in many cases allows NSM to get comfortable with the value opinion without any additional documentation thus expediting the purchase process.

6) **FOLLOW APPRAISAL INDEPENDENCE REQUIREMENTS** - Appraiser Independence Requirements (AIR) specified by the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the FDIC and the Office of Thrift Supervision and the Consumer Financial Protection Bureau. AIR was developed by Fannie Mae, the Federal Housing Finance Agency (FHFA), Freddie Mac and key industry participants to replace the Home Valuation Code of Conduct (HVCC). This went into effect on October 15, 2010. The updated requirements maintain the spirit and intent of the HVCC and continue to provide important protections for mortgage investors, home buyers and the housing market.
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APPRAISAL DEFICIENCY TRENDING

There are many factors that contribute to having deficiencies within an appraisal. At a glance, the following items highlight some of the most common issues being cited by NSM:

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<th>MATERIAL DATA INTEGRITY ISSUES</th>
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While data errors are not always indicative of a defective appraisal it does highlight a general level of integrity that could be a red flag. Outside of just blatantly inconsistent or inaccurate data being provided, data integrity also points to the overall level of completion of the report as well. Examples could be missing photos of all bedrooms or bathrooms, incomplete building sketches (missing room labels and dimensions), or missing plat maps/aerial photo.

SOURCE OF DATA:
Be mindful of the Data Source used by the Appraiser. Appraisers should typically avoid sources from an institution that has a financial interest in the transaction. A potential red flag would be if the builder on a new construction transaction is the sole provider of comparable sales to the appraiser.

PROXIMITY TO SUBJECT:
Comparables ideally should be located in the subject’s immediate neighborhood. A general rule is to utilize comparables within one mile of the subject property. However, an appraiser may be justified in expanding his scope outside such a range if there are locational/view influences (i.e. bodies of water), an under supply of available sales or listings, or if the property is located in a rural area. If applicable, the appraiser should detail the reason behind expanding their range in the report.

DATE OF COMPARABLE SALES:
In a stable market the appraiser should typically explain the reasoning for using a comparable sale seasoned greater than 6 months and especially when aged over 12 months. Older comparables may be used provided the appraiser meaningfully documents the reasoning behind using the seasoned sales in their report.

MARKET COMPARISON:
Within the vast majority of appraisal assignments the appraiser should do their best to utilize only comparables within the subject property’s immediate market area, subdivision or project. However, in scenarios of a new or newly converted PUD or condominium project, the Appraiser must provide at least one comparable from the subject’s subdivision or project and at least one comparable from a competing builder. A comparable used must be outside the influence of the builder or developer. It is preferred that comps used within the subject subdivision or project not be provided by the builder to fully gauge market acceptance.
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**UNSUBSTANTIATED OR MISSING ADJUSTMENTS**

Comparable sales should always be the most similar properties to the subject: property within reasonable proximity and sale seasoning parameters. The Appraiser should explain why specific comparable sales were utilized as well as how applicable adjustments were derived. Beware of across the board adjustments or if large adjustments are not explained or supported in detail. Some key items to be mindful of when reviewing comparables: location, design, room counts, GLA, views, basement & finished rooms below grade, condition, and amenities.

**APPRAISAL REVIEW QUICK HIT ITEMS – POTENTIAL RED FLAGS**

- Occupant shown to be tenant or unknown Owner is someone other than seller shown on sales contract
- Appraisal indicates transaction is a refinance, but other documentation reflects a purchase
- Purchase price is substantially lower/higher than predominant market value
- Subject property obsolescence is minimized
- Large positive adjustments made to comparable properties with no rationale
- Comparable sales do not bracket the subject’s adjusted value
- Comparable sales are not similar in style, size and amenity
- Dated sales used as comparable sales
- New construction/Condo conversion: All comparable sales located in subject development
- Comparable properties are a significant distance from the subject, or located across neighborhood boundaries (main arteries, waterways, etc.)
- Map scale distorts distance of comparable properties
- ‘For Rent’ sign appears in photographs
- Photos appear to be taken from an awkward or unusual standpoint
- Address reflected in photos does not match property address
- Weather conditions in photos inconsistent with date of appraisal
- Appraisal dated before sales contract
- Significant appreciation in short period of time
- The previous transfers or the subject and comparable sales were not analyzed.
FANNIE MAE’S COLLATERAL UNDERWRITER™ (CU™)

As we have mentioned in previous communications, Nationstar Mortgage utilizes Fannie Mae’s Collateral Underwriter™ (CU™) tool which is available to Correspondents as a proprietary appraisal risk assessment application to support proactive management of appraisal quality. CU performs an automated risk assessment of appraisals submitted to the Uniform Collateral Data Portal® (UCDP®) and returns messages to the submitting lender.

CU RISK SCORE

CU risk scores, flags and messages, and UCDP messages are now displayed after the DU Underwriting Findings report which provides Correspondents a more holistic view of risk. The CU Score, which ranges from 1.0 to 5.0, with 5.0 indicating the highest potential collateral risk, is included on the SSR for any appraisal that was uploaded to the UCDP. Also, any items that have an unscored appraisals (“999” messages) are typically due to an inability to geocode the subject property or an inadequate number of appraiser-provided comparables.

NATIONSTAR QUALITY REMINDER

Nationstar Mortgage utilizes the CU Findings and may perform enhanced due diligence based upon the CU score and warning messages and encouraged Correspondents to do the same. In the spirit of mitigating collateral risk for our sellers and Nationstar Mortgage, those loans with higher risk CU scoring/messaging may be referred for an internal appraisal review due to the associated elevated risk.

Nationstar Mortgage asks that for all appraisals indicated as ‘High Risk’ by CU findings (risk scores 4, 5 and 999) Correspondents provide the following information:

1.) Provide a copy of the full CU report (see printing steps in next section),

2.) Provide a copy of any other collateral analysis tools used to support the appraisal report, and

3.) Provide a detailed rationale on how those issues identified within the CU report were overcome.

PRINTING REPORTS FROM CU

Correspondents may print the CU Findings Report directly from CU once logged into their system account. Please refer to the screen shot below that highlights the ‘Print Report’ option on the right hand side of the CU system dashboard.
Fannie Mae and Freddie Mac announced the implementation of a new appraisal-sharing solution within the Uniform Collateral Data Portal® (UCDP®) effective February 7, 2016. The appraisal-sharing feature enables Correspondents to easily share appraisal information with Nationstar Mortgage within the UCDP providing greater certainty and transparency in their loan pipeline.

The new appraisal-sharing solution is extremely beneficial to both Correspondents and Nationstar Mortgage by primarily having the ability for Aggregators to retrieve the Status, Findings and Submission Summary Report (SSR) for correspondent-shared appraisals. Correspondents will continue to be required to provide successful Submissions Summary Reports; however this new solution will help to reduce post-purchase resolution time and expedite loan delivery to the agencies.

As previously mentioned, we strongly urge Correspondents to take advantage of the appraisal-sharing functionality; Correspondents must set up their “Aggregator profile” within the UCDP web portal and then select the aggregator(s) with whom they will choose to share appraisals.

Please select Nationstar Mortgage from the selection criteria within the profile:
UCDP Aggregator ID: Nationstar Mortgage – KSJ363

If you have any questions or would like more information on any of the information outlined above, please call your Client Relationship Manager (CRM) by using our main Correspondent Lending toll-free number, 1-855-683-3100, Option 2.