

Y2K and CU... The Sky is Falling?

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When the millennium turned from 1999 to 2000, I was one of those people concerned about Y2K. Since we are an aging profession, most appraisers remember the dire warnings about catastrophic failures in the electronic infrastructure; as a result of "the millennial bug." For years prior, programmers and engineers had formatted dates as 01/01/99 rather than 01/01/1999. Millions of lines of code were hardcoded into equipment that could result in miscalculations that could crash programs and electronic equipment. News broadcasts warned that everything from hospital equipment to the local electric plant could shut down within minutes after New Year's Eve 1999. The dread of this potential disaster cast a shadow over a New Year's Eve celebration that only occurs once every thousand years.

On New Year's Day we all found out the hysteria was unfounded. Apparently the vast majority of the problems were fixed in the years and months leading up to eventful day. Most likely, the panic leading up to the day was a catalyst for change. Experts believe public attention focused efforts in the government and private sector; everybody was aware of the threat and took steps to effectively avoid the catastrophe.

The recent rollout of Fannie Mae's Collateral Underwriter (CU) parallels the Y2K experience of 15 years ago. Leading up to its implementation, some appraisers panicked and unfounded fears ran rampant. Appraisers were concerned that this new technology would result in a landslide of revision requests. Furthermore, the scoring system was disheartening. Appraisers feared they would lose business if there were too many high-risk scores on their electronic report card. Mortgage Brokers and Realtors warned of deals not closing and extended turn times directly as a result of CU. Like Y2K, there were a few examples of these problems but for the most part business has continued on as usual. Why?

Collateral Underwriter is a risk scoring system, not an appraiser scoring system. It evaluates the overall risk of the underlying collateral being sold to Fannie Mae. Fannie Mae has repeatedly stated that CU is intended to focus the attention of underwriting, not preclude any property from purchase. They will accept a mortgage with a rating of 5 as readily as they will a rating of 1 provided the risk issues are addressed in the appraisal. Appraisers who specialize in complex residential valuation will find their assignments have and overall score higher than average. Hopefully their billings are higher than average as well. There are many properties with high CU scores that are supported by well-reasoned appraisals.

In the first weeks and months after CU came online, some lenders were adjusting to the process and did send more revision requests than they used to. For the most

part though, this has abated. As lenders have become accustomed to the software they are reading appraisals closer and subsequently the onslaught of revision requests has not materialized. Collateral Underwriter is a computer model and as such there are sometimes false positives. These can be irritating to appraisers but they truly are an anomaly and do not occur as often as they appear on appraiser blogs. After all, no one blogs about assignments that go smoothly.

On a positive note, CU (like Y2K) has focused the attention of both lenders and appraisers on comparable selection and adjustment support. Lenders are beginning to appreciate professional appraisers who judiciously select comparables and credibly explain their adjustments. There is nothing new here for good appraisers; they have been doing that their whole career. However, those appraisers who cut corners (and give us all a bad reputation) are now in the spotlight. Collateral Underwriter is good for good appraisers and a wake-up call for bad appraisers.

Panic over the millennial bug was a bust. Mostly because heightened awareness had prompted solutions to the problems before they manifested themselves. New versions of software code written in response to Y2K only made systems better. The same is true for CU. Competent appraisers have been producing credible well-supported appraisals prior to CU and nothing has changed. Marginal appraisers will have their skills tested and refined by Collateral Underwriter... if they stay in the business. One thing is for certain; appraisals will only get better as a result focused attention on quality that Collateral Underwriter brings. Maybe we were wrong about Y2K and CU? There is a silver lining in both.

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