



COLLATERAL RISK NETWORK, INC.
Covid-19 (Coronavirus) Bulletin
March 19, 2020

Leadership of the CRN have been in discussions with policy makers all week. The CRN proposed measures to manage our way through the Coronavirus health crisis that are strategically focused on the following:

- Health, Safety and Welfare of borrowers and the appraisal community
- Safety and soundness of housing finance

The Federal Reserve's lowering of the Fed Funds rate two times recently has created an unprecedented challenge to the housing finance system. The volume of refinances has eclipsed prior rate driven housing market activity. The appraiser population can best handle the volume, while remaining safe, by the agencies adopting a risk cascade of drive-by appraisals, desktop appraisals, and waivers. The demands on the appraisal community have increased dramatically just as "social distancing" has become the protocol for staying safe from the Coronavirus (Covid-19). That scenario presents quite a paradox.

Drive-by appraisals should be permitted in all areas where "shelter in place" restrictions have not been imposed.

- Drive-by appraisers
 - Using an exterior only form or modifications to the 1004 form.
 - Guidance on Assumptions and Limiting Conditions
 - Audit 25% of files after the crisis. In some instances, interior inspections will be necessary.
 - Attestations from the borrower as to recent improvements/renovations. If substantial improvements have been made, the borrower would need to provide photos and invoices and permits as appropriate.
 - Set into place until May 30 with extensions as needed.
 - If borrower claims to have recently completed renovations/improvements a list needs to be provided, photos from the homeowner and in some cases video.
 - Coronavirus Disclaimer.
 - Continue with the same fees (Customary & Reasonable) prior to the crisis. The CRN urges lenders to consider a "cost plus" model to ensure that the AMC is fairly compensated and that they are motivated to engage the best appraiser for each assignment and precious time is not wasted on trying to engage the cheapest appraiser.

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9927 Stephen Decatur Highway, Suite G-16, Ocean City, MD 21842
www.CollateralRiskNetwork.com

- Reiterate AIR policies and set up a hotline for appraisers to call in if anyone is trying to interfere with their independence.
- No revision requests except for substantive reasons.
- Homeowner/Borrower/Real Estate Agent Questionnaire.
- Permit trainees to perform the field work.

In areas that have “shelter in place” directives the lender may choose the “Desktop” appraisal path. Additional prophylactic measures need to be in place to ensure that fraud and abuses don’t become rampant.

- Desktops
 - Leverage existing forms with modifications to the Assumptions and Limiting Conditions.
 - All desktop reports must be performed by a local market expert, the appraiser, who resides in the market area of the subject property. No one, even though they may be licensed in the state, may be engaged unless they are actively performing field work in that area.
 - Audit 25% of these files which may include interior inspections at a future date.
 - Use the Homeowner/Borrower/ Real Estate Agent Questionnaire.
 - Encourage and permit trainees to assist their supervisor.

The CRN has urged that policy makers explore:

- Tightening controls of waivers
 - 70% LTV based upon models.
 - No cash out refinances.
 - No purchase transactions.
 - Only rate and term modifications on seasoned loans.

Sustainable policies need to be put in place for all market conditions. Today’s waiver policies may prove to be disastrous as the crisis right behind the Coronavirus crisis will reveal the overleveraged position of many homeowners. Expanding the waiver program also sends the exact opposite message to the appraisal community. In times of market stress, it is imperative that we rely on the local market expertise of appraisers.

The time to set rational appraisal policies in place would have been after the last housing crisis of 2009. In times of extreme stress, now is not the time to loosen appraisal standards or expand the waiver program. That would trigger fraudulent activities and abusive lending practices. Expansion of the waiver programs would decimate the appraiser work force who have already been negatively impacted by use of alternative products and work forces. The housing finance system is going to need to heavily rely on



the work ethic and local market expertise of licensed and certified appraisers in the coming months as we deal with the uncertain impact of the pandemic on our citizens, and the world.

A unified bulletin from VA, FHA, USDA, Fannie Mae, and Freddie Mac would be most helpful during these trying times. The health, safety, and welfare of all is paramount while not simultaneously exacerbating a coming housing finance crisis.

Joan N. Trice
President
Collateral Risk Network, Inc.

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