EAD With Ease

5-Step Method Gives Lenders a Map toward Successful EAD Implementation

By **Mike Floyd**

After many years of slowly adopting new technology, increased regulatory scrutiny is forcing the hand of the mortgage industry; and organizations are trying catch up at breakneck pace. Even as many lenders and servicers are still recovering from the rigorous new tech changes required to maintain compliance with TRID and UCDP, the next wave is already upon us.

EAD on the Horizon

The Electronic Appraisal Delivery portal, or EAD, is the Federal Housing Administration's (FHA's) answer to the Fannie Mae UDCP and Uniform Appraisal Dataset. The mandatory implementation date of June 27 is fast approaching, and this will apply to all FHA-approved mortgagees with case numbers assigned on or after that date.

Like FNMA's UCDP, FHA's portal requires standardization of appraisal report information in order to allow the collection of that information for automated tracking and analysis. As stated by the FHA, the purpose is to provide "real-time feedback on compliance with FHA appraisal data and report requirements." Additionally, it seems that the FHA envisions a future where appraisal data can be utilized for advanced risk modeling and scoring, as is presently seen from FNMA's Collateral Underwriter. While the implementation of EAD is likely to lead to higher efficiency in appraisal submission, there are several potential stumbling blocks that need to be considered by participating lenders.

A Five-Step Method for Being Prepared

In our experience, there is an effective framework to guide lenders and vendors through a successful regulatory implementation. These steps include: 1) evaluate current capabilities; 2) ensure comprehension of the new regulations; 3) collaboratively engage throughout the actual implementation process; 4) examine the appraisal review process itself; and 5) establish "go-to" subject matter experts and task them with staying abreast of changing regulations.

Lenders and vendors often skip ahead and jump right into the third step of implementation. Skipping over or underestimating the importance of the first two steps almost always results in a fundamental lack of preparation, leading to ineffective, time-consuming, and delayed implementation. Failure to execute on the important fourth and fifth steps often results in an unsustainable process that is not equipped to adapt to future changes.

Here are these five steps in more detail:

01 *Evaluate the appraisal vendor.*

First, lenders must consider their valuation technology vendors. The lender may use a full-service appraisal management company, simply utilize a technology portal service, or deploy a hybrid solution. Then, the lender must determine who is responsible for submitting the actual appraisal report—either the vendor or the lender. If this responsibility does lie with the appraisal vendor, then lenders must ensure their vendor has specific and dedicated IT resources that are experienced and knowledgeable in customized system integrations with the various platforms used in our industry. Delays in implementation due to inexperienced vendors could hamper the timely processing of new loan applications and have huge implications for the lender. For example, does a vendor also submit on the lender's behalf to the UCDP? Do they have a thorough understanding of the differences between UAD and EAD, to account for—and advise about—potentially time-consuming conflicts?

02 *Ensure the vendor has a comprehensive understanding of EAD rules.*

While many of the formatting requirements between the UCDP and EAD portals are identical, some are not. Such ambiguity can be problematic if not identified and considered by the technology vendor up front. For instance, when a subject property has no heating or cooling source, UAD formatting requires the appraiser to check the box marked "Other" and then insert the word "None." EAD rules, as outlined within the Data Delivery Guide, identify no such requirement. Or if a lender starts a loan with the intention of obtaining FHA insurance but decides later to convert the loan to conventional, they may encounter delays when attempting to submit the appraisal through the UCDP, unless their vendor has already identified such situations and instructed appraisers to follow the more rigid standard between the two sets of rules. These are just a couple of real-world examples

of potential trouble areas, and there are many others. Not only is it imperative that the vendor has practical expertise in EAD rules, but they also must have the intention and capability to stay abreast of ongoing changes (see step No. 5—Establish—below).

03 *Engage in the implementation process.*

Once the proficiency of the valuation vendor partner has been established, the lender must ensure they have invited that partner to register within the EAD Portal as a lender agent. Concurrently, it is imperative that the lender and vendor commit to a collaborative engagement in the integration process and to document a clear understanding of each other's expectations, roles, and responsibilities. Once this is established, the process should include multiple intercompany, multifunctional discovery sessions and discussions, resulting in joint decisions regarding the appropriate setup, roles, and administration duties. Once these decisions are made, they must be coordinated between the lender and their technology partners based upon the aforementioned agreement concerning expectations, roles, and responsibilities.

This step is the most time consuming and difficult part of the process, and many lenders/vendors, under the time pressure of looming deadlines, are tempted to start here. Skipping the necessary preparatory steps is a sure way to invite a failed integration. Also, as is typical for technology integrations, the lender and the vendor will likely get out of this process what they put into it. When the lender doesn't play a key role in the integration setup, they may not end up with an efficient process that meets their needs from the outset, which could require considerable tinkering once loan applications start accumulating.

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04 *Examine the appraisal review process.*

While the relevant technology integrations are occurring, the lender should consider modifications to their current FHA appraisal underwriting process that may be necessitated by the new portal. Similar to UCDP, EAD will render a series of errors and warning messages relating to the appraisal's compliance with FHA requirements. Some of these will be "hard stops" that require intervention in order to advance the file. Some hard stops can be overridden, but others will require correction prior to a successful transmission of the appraisal report to FHA. Lenders will need to have subject matter experts appropriately engaged—either their own or those of their chosen vendor—to determine the relevancy of hard-stop messages and the level of risk they represent in terms of loan approval. When a hard stop occurs due to an ineligible property characteristic—rather than due to a reporting inadequacy by the appraiser—a decision will need to be made regarding the continued viability of the applicant for an FHA-insured loan and potential alternatives should be identified. These could include mitigation of the ineligible characteristic, if possible, or repackaging the loan for conventional purposes. Timely identification of the appropriate response could be the difference between losing the loan altogether or salvaging the customer relationship.

05 *Establish EAD subject matter experts within the organization.*

New compliance regulations can be difficult to implement for any lender, no matter the size. However, small lenders with limited resources are often deemed "too small to comply" and have to make difficult decisions in an effort to maintain the success of their business. Establishing a subject matter expert within these organizations is key to maintaining compliance during times of change and can offer an easy-to-implement solution for small lenders with minimal resources. This person or group of people should be well-versed in all components of the regulation, including operations-related processes and legalities. More often than not, this person will also function as the point of contact with vendor partners and can work with them to ensure smooth transitions through every facet of the regulatory change. The SME for the organization will also be seen as an accountability leader who can report on metrics, difficulties, and best practices as the transition occurs. While FHA loan volume should factor heavily into determining how many SMEs a lending organization needs, quantity does not outrank quality, as a single committed employee could make all the difference in creating a smooth transition for an organization.

This five-step framework is strongly recommended for lenders and valuation vendors as they begin to implement EAD. Of course, depending on the specific nature of each relationship and on the core competencies of each entity, the importance of each step will likely vary. Ultimately, this is a framework that not only increases the odds for a successful implementation, but also enhances the relationship's ability to maintain success going forward, in anticipation of the inevitable changes to the EAD regulations.

Successful Implementations are Possible

As with every new compliance regulation, the EAD implementation will come with hiccups, pain points, and eventually, best practices. Open lines of communication and established expectations between lenders and their valuation partners will lead to a more seamless transition, and a relationship that can benefit both parties for many years—and regulatory changes—to come.

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