



THE 4 E'S OF A SUCCESSFUL EAD IMPLEMENTATION

By Mike Floyd, StreetLinks Lender Solutions

Even though 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.

Required use of the Federal Housing Administration's Electronic Appraisal Delivery portal, or EAD, is fast approaching, with a mandatory implementation date for all FHA-approved mortgagees effective for case numbers assigned on or after June 27, 2016.

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. While the implementation of EAD is likely to lead to higher efficiency in appraisal submission, there are potential stumbling blocks that need to be considered by participating lenders. Listed below are the four steps vendors should take for a successful EAD implementation.

1. EVALUATE your appraisal vendor.

First, lenders must consider their valuation technology vendor and determine if they will submit appraisal reports on the lender's behalf.

If this responsibility does lie with the appraisal vendor, then lenders must ensure their vendor has dedicated IT resources that are experienced and knowledgeable in customized system integrations. 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 your vendor also submit on your 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?

2. ENSURE your 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. 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.

3. ENGAGE in the implementation process.

Once the proficiency of the valuation vendor partner has been established, the lender must ensure that they have invited that partner to register within the EAD Portal as a lender agent, in addition to engaging them as active participants in the integration process. Joint decisions regarding the appropriate setup, roles and administration duties must be coordinated between the lender and their technology partners based upon the specific expectations of each relationship. As is typical for technology integrations, the lender 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 – potentially resulting in considerable tinkering with the process at a time when loan applications may already be accumulating.

4. EXAMINE your 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 over-ridden, 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 that 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. These could include mitigation of the ineligible characteristic (if possible), or repackaging of 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.