

# Supporting Statement for Paperwork Reduction Act Submissions

## Direct Endorsement Underwriter/HUD Reviewer – Analysis of Appraisal Report OMB Control Number 2502-0477 (Form HUD-54114)

### A. Justification

1. Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA) requires that “all appraisals performed in connection with federally insured transactions shall be performed only by individuals certified or licensed in accordance with the requirements of...Title XI.” Uniform Standards of Professional Appraisal Practice (USPAP) state in Standards Rule 3 that, “review appraisers should not sign the report under review unless they intend to take the responsibility of a cosigner. A separate report or letter...may be an appropriate method for separating the review from the actual signing of the report.” As a result of these requirements, individual States will not permit anyone other than the licensed or certified appraiser to write on the report. Previously, an underwriter or reviewer wrote comments related to their analysis directly on the appraisal report and signed their name as the reviewer. Typically, underwriters are not licensed or certified appraisers and therefore, this form is necessary to provide them with a consistent method of documenting the analysis and acceptability of the appraisal report. Underwriters use this form to document a change in the value of the property for purposes of lending, or a change in the repair requirements of the appraisal. Regulations are found at 12 U.S.C. 3347-3351, Title 12—Banks and Banking, Chapter 34A—Appraisal Subcommittee of Federal Financial Institutions Examination Council.
2. This information is provided by lenders or FHA staff reviewers and collected only when the reviewer must comment on deficient information contained in the appraisal report and wants to change the value of the report or change the “subject to” conditions of the report. The information collected is used by FHA in monitoring the quality of the lender’s analysis of the appraisal report, identifying areas of weakness for future training, and removing lenders that consistently exhibit careless underwriting and subsequently affect the risk to the Department. This is an ongoing collection that has remained stable over time. HUD considers underwriters to be responsible for the appraised value and any errors in the appraisal and this consideration has not changed for many years, however USPAP does not allow a non appraiser to change an appraisal report so since 1989, FHA has provided a form for the underwriter to make corrections to the appraisal or to change the value. Underwriters are traditionally reluctant to change an appraisal or make corrections and typically ask the appraiser to make the changes to the report and republish it. This form is only used on the rare occasion when the appraiser is unavailable or unwilling to make changes. This happens in less than 0.5% of FHA cases.

The information is not shared with any other organization inside or outside HUD.

The decrease in the numbers of respondents and responses and burden hours are due to the increasing reluctance of DE Underwriters to change values in FHA Appraisal reports. Lenders are held responsible for the DE underwriters decisions and poor decisions can result in requests for indemnifications if the loan defaults and the appraised value was the basis for the default. Increasingly lenders are instructing their underwriters to change the value or the valuation conditions only in rare instances when the underwriter has persuasive evidence that the changes are necessary.

3. 95% of the collection of the information can be submitted electronically through the Department’s Internet based FHA Connection. Currently about 20% of loan files are submitted to FHA electronically. Files are only submitted when FHA requests a lender to provide a binder. All other documentation is included in the retained/submitted within the standard case binder. FHA is working to collect all data electronically similar to the way that is typical for Fannie Mae and Freddie Mac. Automation of that process will be managed under the basic FHA mortgage management process.
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4. No duplication exists because each appraisal report is unique.
5. Some lenders may be considered small businesses. However, there is no adverse impact on them as a result of this collection. The burden associated with this process is the minimum needed to make certain the integrity of the FHA insurance fund is maintained.
6. If this information is not collected, the agency would be at risk due to possibly inaccurate, overvalued appraisal reports. This mechanism provides a consistent means for reviewers to document the required detailed analysis of the appraisal report as well as to alert FHA staff to both appraisers and underwriters that may need remedial instructions.
7. There are no special circumstances required in this information collection.
8. In accordance with 5 CFR 1320.8(d), the agency’s notice soliciting public comments was announced in the Federal Register on August 1, 2012 (Vol. 77 No. 148, pages 45649).No comments were received.

Lenders and director endorsement (DE) underwriters were surveyed in developing the form, they both expressed a desire for a consistent and clear format for reviewing appraisals since it is not appropriate to write on the appraisal itself. Also, completion of the form itself is neither mandatory nor needed on all appraisals; rather, it is a convenient and recognized method for commenting on appraisal reports deemed deficient, and when clarifying comments are needed to support the decision to accept the appraisal report and its value.

1. Amy Trujillo, Denver HOC “The only time we see this form is when the DE UW is changing value. Technically it is the DE UW who determines the value of the property when they issue the conditional commitment”.
2. Krish Raja, Philadelphia HOC “We see this form once in a while when DE Underwriter alters the value and/or repair with justification.”
3. Dan Ellis, Atlanta HOC “This is an important form that lets us know the underwriter has analyzed the appraisal. Instances where it has been used:
  - a) Minor corrections to the appraisal report when the appraiser is uncooperative – thus not delaying a closing
  - b) Addition or deletion of repairs – example: the appraiser requires repair of non MPR items – the underwriter can delete these repairs and note any change in value.
  - c) When the original appraisal does not support value – the underwriter can order a second appraisal under their mandatory QC program. The second appraisal is not logged but included in the file. If the second appraisal supports the original opinion of value, the underwriter would note this on form HUD 54114.”

9. No payments, gifts, or any remuneration are given to the respondents.
10. There are no assurances of confidentiality provided to respondents. Completed HUD-54114 forms may be obtained through the Freedom of Information Act.
11. There are no questions posed of a sensitive nature or that are commonly considered private.
12. Annual Burden Estimate:

Information Collection	Number of Respondents	Frequency of Response	Responses Per Annum	Burden Hour Per Response	Annual Burden Hours	Hourly Cost Per Response	Annual Cost
<b>HUD-54114</b>	<b>*127,000</b>	<b>1</b>	<b>127,000</b>	<b>.05</b>	<b>6,350</b>	<b>\$35.38</b>	<b>\$224,663</b>

\*The hourly cost is based on the staff preparation time and review of Form HUD-54114; based on a HUD equivalent GS-12 providing the information

13. There are no additional costs to respondents.

14. Annual Cost to the Federal Government:

Information Collection	Number of Respondents	Frequency of Response	Responses Per Annum	Burden Hour Per Response	Annual Burden Hours	Hourly Cost Per Response	Annual Cost
<b>HUD-54114</b>	<b>6350</b>	<b>1</b>	<b>6,350</b>	<b>.05</b>	<b>317.5</b>	<b>\$35.38</b>	<b>\$11,233.15</b>

\*Cost estimates for the Federal Government are based on a \$35 per-hour cost that includes overhead, staff preparation time, and review. The cost related to the Federal Government relates to the review of direct endorsement cases that is estimated to be 5 percent of the respondent's cases reviewed (317.5 x \$35.38 = \$11,233.15).

15. This is an extension of a currently approved information collection. There are no program changes. However, the decrease in the numbers of respondents and responses and burden hours are due to the increasing reluctance of DE Underwriters to change values in FHA Appraisal reports. Lenders are held responsible for the DE underwriters decisions and poor decisions can result in requests for indemnifications if the loan defaults and the appraised value was the basis for the default. Increasingly lenders are instructing their underwriters to change the value or the valuation conditions only in rare instances when the underwriter has persuasive evidence that the changes are necessary.

16. There are no plans to publish this information.

17. We are not requesting an exemption to displaying the expiration date.

18. The agency is able to certify compliance with all provisions under item 19 of OMB Form 83-I

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**B. Collections of Information Employing Statistical Methods**

This collection of information does not employ statistical methods.