Chapter B4-1, Appraisal Requirements

Appraisal Requirements

Introduction

This chapter explains Fannie Mae's appraisal requirements and guidelines.

In This Chapter

This chapter contains the following sections:

Section B4-1.1, General Appraisal Requirements

B4-1.1-01, Definition of Market Value (04/15/2014)

Introduction

This topic contains information on the definition of market value.

Definition of Market Value

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what he or she considers his/her own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

  Note: Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable because the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession, but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.1-02, Lender Responsibilities (09/04/2018)

Introduction

This topic contains information on lender requirements, including:

- Lender Responsibilities
- Confirmation and Documentation of the Current Owner
- Objective and Unbiased Appraisals
- Reporting Unfavorable Conditions

Lender Responsibilities

The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Fannie Mae requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property. Some loans may be eligible for an appraisal waiver, and an appraisal is not required if the lender exercises the waiver and complies with the related requirements. (See B4-1.4-10, Appraisal Waivers (06/03/2020), for additional information.)

If an appraisal is obtained, the lender is responsible for

- compliance with the *Appraiser Independence Requirements*;
- selection of the appraiser (see B4-1.1-03, Appraiser Selection Criteria (01/31/2017));
- compliance with the Uniform Appraisal Dataset (UAD) when applicable (see B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (07/03/2019));
- ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy;
- successful submission of the appraisal through the UCDP prior to delivery (see B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (07/03/2019)); and
- continually evaluating the appraiser's work through the quality control process (see B4-1.3-12, Quality Assurance (06/03/2020)).

For certain loans, the lender is relieved of a number of responsibilities related to the appraisal and subject property value. See A2-2-06, Representations and Warranties on Property Value (12/04/2018), for additional information.

Confirmation and Documentation of the Current Owner

Confirmation that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value.

Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required. Examples of acceptable documentation include, but are not limited to:

- a copy of a recorded deed, mortgage, or deed of trust,
- a recent property tax bill or tax assessment notice,
- a title report,
- a title commitment or binder, or
- a property sale history report.

This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing, and closing.

When the transaction is part of an employee relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. Additionally, the appraiser must comment on this condition in the appraisal report.

Objective and Unbiased Appraisals

A lender must ensure that the appraiser

- described the property and the neighborhood in factual, unbiased, and specific terms;
- considered all factors that have an effect on value; and
- was objective and unbiased in the development of the opinion of market value in the appraisal report.

A number of federal, state, and local laws prohibit discrimination in the appraisal of housing. Fannie Mae expects professional appraisers to fully understand that discriminatory valuation and appraisal reporting practices are not only illegal, but also unethical. Unintentional discrimination can occur as the result of what an appraiser states, or fails to state, in his or her appraisal report. The lender and the appraiser must ensure that the integrity of the loan decision is not influenced by subjective, racial, or stereotypical terms, phrases or comments in the appraisal report.

Prohibited practices include:

- use of unsupported, descriptive comments or drawing unsupported conclusions from subjective observations. These actions may have a discriminatory effect;
- use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process. These actions may have a discriminatory effect, and may or may not affect the use and value of a property;
- use of subjective terminology, including, but not limited to:
  - "pride of ownership," "no pride of ownership," and "lack of pride of ownership";
  - "poor neighborhood";
  - "good neighborhood";
  - "crime-ridden area";
  - "desirable neighborhood or location"; or
  - "undesirable neighborhood or location";
- use of subjective terminology that can result in erroneous conclusions;
- actions that may have a discriminatory effect or may affect the use and value of the property; or
- basing the analysis or opinion of market value (either partially or completely) on the race, color, religion, sex, handicap, familial status, or national origin, of either the prospective owners or occupants of the property being appraised or the present owners or occupants of the properties in the vicinity of that property.

Reporting Unfavorable Conditions

The lender must ensure that appraiser comments regarding unfavorable conditions, such as the existence of an adverse environmental or economic factor, also discuss how the condition affects the value or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected whenever possible. The appraiser must address the impact these factors may have, if any, on the value and marketability of the subject property. (See B4-1.3-06, Property Condition and Quality of Construction of the Improvements (04/15/2014), for further information).

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2017–03	March 28, 2017
Announcement SEL-2016–09	December 6, 2016
Announcement SEL-2016–08	October 24, 2016

Announcements	Issue Date
Announcement SEL-2016–02	February 23, 2016
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2013–06	August 20, 2013
Announcement SEL-2013–03	April 9, 2013
Announcement SEL-2011–06	July 26, 2011
Announcement SEL-2011–01	January 27, 2011
Announcement SEL-2010–16	December 1, 2010

B4-1.1-03, Appraiser Selection Criteria (01/31/2017)

Introduction

This topic contains general information on appraiser selection, including:

- Appraiser License and Certification
- Appraiser Trainees
- Knowledge and Experience
- Selection of the Appraiser
- Supervisory Appraiser

Appraiser License and Certification

Fannie Mae requires a lender (or its authorized agent) to use appraisers or supervisory appraisers that are state-licensed or state-certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws). The lender (or its authorized agent) must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law. The lender must ensure that the state license or state certification is active as of the effective date of the appraisal report. The appraiser must note his or her license or certification number on the individual appraisal report forms, in compliance with the Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements.

Fannie Mae's appraisal report forms identify the appraiser as the individual who

- personally inspected the property being appraised,
- inspected the exterior of the comparables,

- performed the analysis, and
- prepared and signed the appraisal report as the appraiser.

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee or an employee of the appraiser doing market data research or data verification in the development of the appraisal. Under some state laws, a lender's use of an unlicensed or uncertified appraiser that is working as an employee or sub-contractor of a licensed or certified appraiser will satisfy the state's licensing and certification requirement, as long as the appraisal report is signed by a state-licensed or state-certified supervisory or review appraiser. The state-licensed or state-certified appraiser that signs the appraisal report must acknowledge in the report the extent of the professional assistance provided by others and the specific tasks performed by each individual, and must certify that each named individual is qualified to perform the tasks.

Appraiser Trainees

Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, he or she must sign the left side of the appraiser certification as the Appraiser if

- he or she is working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor,
- the right side of the appraiser certification is signed by that supervisory appraiser, and
- it is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term "Trainee" should be entered in the "Other" field in the Appraiser Certification section.

Knowledge and Experience

Lenders must use appraisers that

- have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type; and
- have the requisite knowledge about, and access to, the necessary and appropriate data sources for the area in which the appraisal assignment is located.

Appraisers that are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser that does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, Fannie Mae does not allow the USPAP flexibility.

Selection of the Appraiser

The lender

- is responsible for the selection of appraisers and for the qualifications and quality of work provided by the appraisers that are selected;
- may not use appraisals ordered or received by borrowers or other parties with an interest in the transaction, such as the property seller or real estate broker. Fannie Mae does allow lenders to use third-party vendors (for example, appraisal management companies) to manage the appraiser selection process. However, it should be noted that if a lender enters into a contract with any vendor, contractor, or third-party service provider, the lender is accountable for the quality of the work performed as if it was performed by an employee of the lender.

The lender (or its authorized agent)

- must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements, including the *Appraiser Independence Requirements*.
- must ensure that an appraiser has demonstrated the ability to perform high quality appraisals before using an appraiser's services. The quality of an appraiser's work is a key criterion that must be used in determining which appraiser the lender (or its authorized agent) uses for its assignments. The requirement for an appraiser to produce a high quality work product must always outweigh fee or turnaround time considerations.

Delegating these responsibilities to a third party does not relieve the lender of its responsibilities related to the appraisal or the value, condition, and marketability of the property. See B4-1.3-12, Quality Assurance (06/03/2020), for information related to ongoing review of appraisals.

> **Note**: Fannie Mae does not approve appraisers. Therefore, when selecting appraisers, lenders must not give any consideration to an appraiser's representation that he or she is approved or qualified by Fannie Mae.

Supervisory Appraiser

As noted in the License and Certification section in this topic, Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) that works as an employee or subcontractor of a licensed or certified appraiser, to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so), as long as the appraisal report is signed by a licensed or certified supervisory or review appraiser and is acceptable under state law.

If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparables, but must sign the right side of the report and certify that he or she

- directly supervised the appraiser that prepared the appraisal report,
- has reviewed the appraisal report,
- agrees with the statements and conclusions of the appraiser,
- agrees to be bound by certifications as set forth in Fannie Mae's appraisal report forms, and
- takes full responsibility for the appraisal report.

A supervisory appraiser may not sign the left hand side of the appraisal report unless he or she has met the requirements of the appraiser as noted in the License and Certification section in this topic.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2017–01	January 31, 2017
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2013–03	April 9, 2013
Announcement SEL-2010–16	December 1, 2010
Announcement SEL-2010–09	June 30, 2010
Announcement 09–19	June 8, 2009
Announcement 08–30	November 14, 2008

B4-1.1-04, Unacceptable Appraisal Practices (04/15/2014)

Introduction

This topic contains examples of unacceptable practices, many of which are reflected in the appraiser's certifications on the appraisal reports.

Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- development of or reporting an opinion of market value that is not supportable by market data or is misleading;
- development of a valuation conclusion based either partially or completely on the sex, race, color, religion, handicap, national origin, familial status, or other protected classes of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;

- failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
- failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales;
- selection and use of inappropriate comparable sales;
- failure to use comparable sales that are the most locationally and physically similar to the subject property;
- creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
- use of comparable sales in the valuation process when the appraiser has not personally inspected the exterior of the comparable property;
- use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
- not supporting adjustments in the sales comparison approach;
- failure to make adjustments when they are clearly indicated;
- use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source;
- development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
- development of or reporting an appraisal in a manner that is inconsistent with the requirements of the USPAP in place as of the effective date of the appraisal.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.1-05, Disclosure of Information to Appraisers (12/06/2016)

Introduction

This topic contains information on lender disclosure of information to appraisers, including:

- Overview
- Sales Contract Information
- Information Disclosed to the Appraiser
- Contract Changes After the Appraisal is Completed

Overview

Any and all information about the subject property that the lender is aware of must be disclosed to the appraiser. The appraiser must determine if the information could affect either the marketability of the property or the opinion of the market value of the property.

Sales Contract Information

All financing data and sales concessions for the subject property that will be or have been granted by anyone associated with the transaction must be disclosed to the appraiser, as appropriate. Typically, this information is provided in the sales contract. Therefore, the lender must provide, or ensure that the appraiser is provided with, a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised.

Information Disclosed to the Appraiser

Financial Information

The list below includes items that must be disclosed to the appraiser on purchase transactions, if applicable:

- settlement charges,
- loan fees or charges,
- discounts to the sales price,
- interest rate buydowns,
- below-market-rate financing,
- terms of any subordinate financing provided by interested parties,
- credits or refunds of borrower expenses,
- absorption of monthly payments,
- assignment of rent payments, and
- any other information not listed above that impacts property value.

Property Information

The list below includes items that must be disclosed, if applicable:

- condo or PUD fees;
- non-realty items included in the transaction;
- any environmental hazard in or on the subject property or in the vicinity of the property that the lender is aware of or learns from the borrower, the real estate broker, or any other party to the transaction (see B4-1.4-08, Environmental Hazards Appraisal Requirements (04/15/2014)); and
- any other items that affect the safety, soundness, or structural integrity of a property of which the lender may be aware.

Contract Changes After the Appraisal is Completed

If the contract is amended *after* the effective date of the appraisal in a way that does not affect the description of the property, then the lender is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

- sale price,
- transaction terms,
- financing concessions,
- seller-paid closing costs,
- names or initials,
- closing date, and
- correction of minor clerical errors such as misspellings.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2016–09	December 06, 2016
Announcement SEL-2014–03	April 15, 2014
Announcement 08–30	November 14, 2008

B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (07/03/2019)

Introduction

This topic contains information on the Uniform Appraisal Dataset and the Uniform Collateral Data Portal, including:

- Uniform Appraisal Dataset (UAD)
- Uniform Collateral Data Portal (UCDP)

Uniform Appraisal Dataset (UAD)

The UAD standardizes appraisal data elements for a subset of fields on specific appraisal report forms and includes all data elements required to complete these forms. Fannie Mae requires that the following appraisal report forms are completed utilizing Appendix D of the UAD Specification when reporting the results of an appraisal for a conventional loan:

- *Uniform Residential Appraisal Report* (*Form 1004*), and
- *Individual Condominium Unit Appraisal Report* (*Form 1073*).

Other appraisal report forms may be completed using the standards contained in the UAD Specification to the extent those standards are applicable to that particular form. Lenders may obtain the most recent version of Appendix D of the Uniform Appraisal Dataset Specification on Fannie Mae's website. Additional information concerning UAD may be found on *Fannie Mae's website*.

Uniform Collateral Data Portal (UCDP)

The UCDP is a portal through which lenders are required to electronically submit appraisal reports for conventional loans delivered to Fannie Mae. The following appraisal report forms including all exhibits, addenda, and photographs, must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to the delivery date of the loan:

- *Uniform Residential Appraisal Report* (*Form 1004*),
- *Manufactured Home Appraisal Report* (*Form 1004C*),
- *Small Residential Income Property Appraisal Report* (*Form 1025*),
- *Individual Condominium Unit Appraisal Report* (*Form 1073*), and
- *Individual Cooperative Interest Appraisal Report* (*Form 2090*).

If there are subsequent revisions to the appraisal report, the final version of the report that was utilized in making the underwriting decision must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to the delivery of the loan. When submitting an appraisal report through the UCDP, lenders must ensure that it is the unaltered report submitted by the identified appraiser.

Additionally, for loans that require an appraisal, lenders must ensure that the appraised value as indicated on the appraisal submitted in UCDP matches the appraised value as reported at delivery. An exception is allowed for this requirement when the appraisal used to underwrite the loan is a desk or field review of an existing appraisal because those types of reports cannot be up-loaded to UCDP. In those instances, the appraised value reported at delivery will reflect the value as stated in the desk or field review. However, the original appraisal that was the subject of review must have been submitted to UCDP.

Appraisal report forms not listed above cannot be delivered through UCDP with the exception of the *Appraisal Update and /or Completion Certificate* (*Form 1004D)*, which is optional. Lenders must maintain the applicable appraisal report and attachments in the loan file as part of the underwriting documents in accordance with A2-4.1-02, Ownership and Retention of Loan Files and Records (12/19/2017). Lenders may obtain detailed information on the *UCDP* page on Fannie Mae's website.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2017-09	October 31, 2017
Announcement SEL-2015–01	January 27, 2015
Announcement SEL-2014–13	November 10, 2014
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2011–11	October 25, 2011
Announcement SEL-2011–06	July 26, 2011

Section B4-1.2, Documentation Standards

B4-1.2-01, Appraisal Report Forms and Exhibits (07/03/2019)

Introduction

This topic contains information on appraisal report forms and exhibits, including:

- Scope of Work
- List of Appraisal Report Forms
- Exhibits for Appraisals
- Appraiser Certifications and Limiting Conditions

Scope of Work

Appraisers must use the most recent version of the appraisal report forms and include any other information, either as an attachment or addendum to the appraisal report form, needed to adequately support the opinion of market value. Although the scope of work for the appraisal or the extent of the appraisal process is guided by Fannie Mae's appraisal report forms, the forms do not limit or control the appraisal process. The appraiser's analysis should go beyond any limitations of the forms, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

List of Appraisal Report Forms

Lenders must ensure that appraisal reports are completed on one of the following Fannie Mae forms. The table below provides Fannie Mae's acceptable appraisal report forms (see *Single-Family Forms* for a complete list).

Form	Purpose
Uniform Residential Appraisal Report (*Form 1004*)	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory apartment) based on interior and exterior property inspections. Form 1004 also may be used for two-unit properties, if each of the units is occupied by one of the co-borrowers as his or her principal residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage). In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance. Appraisals reported on Form 1004 must be completed in accordance with the *UAD Specification*.
Manufactured Home Appraisal Report (*Form 1004C*)	For appraisals of one-unit manufactured homes (including manufactured homes in a PUD, condo, or co-op project, and MH Advantage properties) based on interior and exterior property inspections.
Individual Condominium Unit Appraisal Report (*Form 1073*)	For appraisals of one-unit properties in condo projects based on interior and exterior property inspections. Appraisals reported on Form 1073 must be completed in accordance with the UAD Specification.
Individual Cooperative Interest Appraisal Report (*Form 2090*)	For appraisals of one-unit properties in co-op projects based on interior and exterior property inspections
Small Residential Income Property Appraisal Report (*Form 1025*)	For appraisals of two- to four-unit properties (including two- to four-unit properties in PUD, condo, or co-op projects) based on interior and exterior property inspections.
Appraisal Update and/or Completion Report (*Form 1004D*)	For appraisal updates and/or completion reports for all one- to four-unit appraisal reports.

Exhibits for Appraisals

The exhibits in the following table must accompany the appraisal report. It should be noted that, in addition to these requirements, the appraiser is expected to provide any additional attachments or addenda to the appraisal report necessary to provide an adequately supported opinion of market value.

Exhibit	Requirements
Building sketch and calculations	An exterior building sketch that indicates dimensions and calculations that demonstrate how the estimate for gross living area is derived. If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae requires a floor plan sketch that includes the interior walls. For a unit in a condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable).
Street map	Showing the location of the subject property and the comparables that the appraiser used.
Exterior photographs	Clear, descriptive photographs showing the front, back, and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified. Acceptable photographs include original images from photographs or electronic images, copies of photographs from a multiple listing service, or copies from the appraiser's files. Photographs of comparable rentals utilized in the *Small Income Residential Appraisal Report* (Form 1025) are not required.
Interior photographs	At a minimum, the report must include photographs of the following: • the kitchen; • all bathrooms; • main living area; • examples of physical deterioration, if present; and • examples of recent updates, such as restoration, remodeling, and renovation, if present. **Note**: Interior photographs on proposed or under construction properties may be taken by the appraiser at the time of the inspection for the Certification of Completion, and provided with the Form 1004D.
Appraisal Update and/or Completion Report (*Form 1004D*)	At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.
Single-Family Comparable Rent Schedule (*Form 1007*)	Required if the property is a one-unit investment property and the borrower is using rental income to qualify. Otherwise, Form 1007 is not required. (The lender may obtain this form for the purpose of reporting gross monthly rent at delivery. See *Reporting of Gross Monthly Rent*in B3-3.1-08, Rental Income (06/03/2020).)

Appraiser Certifications and Limiting Conditions

Each Fannie Mae appraisal report form includes an appraiser's certification (and, if applicable, a supervisory appraiser's certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.

The appraiser may not make changes or deletions to the existing certifications; however the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:

- those required by state law;
- those related to the appraiser's continuing education or membership in an appraisal organization; or
- those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.

Lenders are responsible for reviewing any additional certifications made by appraisers to ensure that they do not conflict with Fannie Mae's policies or standard certifications on Fannie Mae appraisal forms.

The appraiser's certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage finance transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user:

"The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the stated scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser."

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-06	July 03, 2019
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2012–06	June 26, 2012
Announcement SEL-2011–10	September 27, 2011

Announcements	Issue Date
Announcement SEL-2011–06	July 26, 2011
Announcement SEL-2010–09	June 30, 2010
Announcement 08–30	November 14, 2008

B4-1.2-02, Appraisal Age and Use Requirements (06/05/2018)

Introduction

This topic contains information about the following:

- Age of Appraisal and Appraisal Update Requirements
- Multiple Appraisals of the Subject Property
- Use of an Appraisal for a Subsequent Transaction

Age of Appraisal and Appraisal Update Requirements

When an appraisal is obtained, the property must be appraised within the 12 months that precede the date of the note and mortgage.

When an appraisal report will be more than four months old on the date of the note and mortgage, regardless of whether the property was appraised as proposed or existing construction, the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal. This inspection and results of the analysis must be reported on the *Appraisal Update and/or Completion Report* (*Form 1004D*).

- If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has *not* declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.

  Note: The appraisal update must occur within the four months that precede the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.

See B4-1.3-12, Quality Assurance (06/03/2020), for information concerning changes to the appraised value. See B2-1.5-02, Loan Eligibility (09/02/2020), for information regarding property valuation requirements for mortgage loans sold to Fannie Mae more than four months from the note date.

Multiple Appraisals of the Subject Property

If the lender obtains more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must

- adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value,
- document the reasons for relying on the appraisal, and
- submit the appraisal selected by the lender through the UCDP prior to delivery.

These requirements also apply if the lender considers an appraisal to be deficient (see B4-1.3-12, Quality Assurance (06/03/2020)).

Use of an Appraisal for a Subsequent Transaction

Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:

- The subsequent transaction may only be a Limited Cash-Out Refinance.
- The appraisal report must not be more than 12 months old on the note date of the subsequent transaction. If the appraisal report is greater than 4 months old on the date of the note and mortgage, then an appraisal update is required. See preceding section, Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update.
- The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction.

  Note: The appraisal must comply with all other requirements in the Underwriting Property section of the *Selling Guide*.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2016–08	October 24, 2016

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2013–03	April 9, 2013
Announcement SEL-2011–06	July 26, 2011
Announcement SEL-2011–03	March 31, 2011
Announcement SEL-2010–09	June 30, 2010
Announcement 09–19	June 8, 2009

B4-1.2-03, Requirements for Postponed Improvements (02/06/2019)

Introduction

This topic contains information on postponed improvements, including:

- Overview
- Requirements for New or Proposed Construction
- Requirements for Existing Construction
- Requirements for HomeStyle Energy Improvements on Existing Construction

Overview

Improvements for the subject property must be complete when the mortgage is delivered to Fannie Mae. However, in some circumstances, Fannie Mae does allow a loan to be delivered prior to improvements being completed.

Requirements for New or Proposed Construction

When the property securing the mortgage is new or proposed construction, the appraisal may be based on either plans and specifications or an existing model home. The table below describes requirements related to properties that are new or proposed construction that are not complete when the mortgage is delivered to Fannie Mae.

✓	Requirements for New or Proposed Construction
	Mortgages may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that: • are part of the sales contract (third-party contracts are not permissible); • are postponed for a valid reason, such as inclement weather or a shortage of building materials; and • do not affect the ability to obtain an occupancy permit.
	A certification of completion must be obtained to verify the work was completed and must: • be completed by the appraiser, • state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and • be accompanied by photographs of the completed improvements.
	The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property.
	Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
	Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae’s criteria for custodial accounts and depositories as outlined in *Servicing Guide*topic A4-1-02, Establishing Custodial Bank Accounts.
	Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
	The completion escrow may not adversely affect the mortgage insurance or title insurance.
	Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.
	Lenders must obtain a final title report, which must not show any outstanding mechanic’s liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae’s lien.

Requirements for Existing Construction

Lenders must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect the safety, soundness, or structural integrity of the subject property. See B4-1.3-06, Property Condition and Quality of Construction of the Improvements (04/15/2014), for information concerning property condition and quality of construction ratings.

The tables below provide requirements related to existing properties that have physical deficiencies, minor conditions, or deferred maintenance items that may or may not affect the safety, soundness, or structural integrity of the property.

✓	**Requirements for Existing Construction** **When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property**
	If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal “as is” and these items must be reflected in the appraiser’s opinion of value. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had this work completed prior to delivery of the loan to Fannie Mae.
	If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at its own discretion and still deliver the loan to Fannie Mae prior to the release of the escrow as long as the lender can ensure that these items do not affect the safety, soundness, or structural integrity of the property.
	Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae’s criteria for custodial accounts and depositories as outlines in *Servicing Guide* topic A4-1-02, Establishing Custodial Bank Accounts.

✓	**Requirements for Existing Construction** **When There are Incomplete Items or Conditions that Do Affect the Safety, Soundness, or Structural Integrity of the Property**
	When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the lender must obtain a certificate of completion from the appraiser before the mortgage is delivered to Fannie Mae. Although the original appraiser should complete any required certification of completion, the lender may use a substitute appraiser. See B4-1.2-02, Appraisal Age and Use Requirements (06/05/2018), for certifications completed by substitute appraisers.
	The certification does not need to include photographs of the property unless those that accompanied the original appraisal report are no longer representative of the completed property.

Requirements for HomeStyle Energy Improvements on Existing Construction

The table below provides the postponed improvement requirements for a loan with HomeStyle Energy improvement feature(s). See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties (06/03/2020), for other requirements related to loans with energy-related improvement features.

✓	Requirements for HomeStyle Energy Improvements on Existing Construction
	Mortgages may be delivered before the energy-related improvements are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that will not prevent the issuance of an occupancy permit.
	A certification of completion must be obtained to verify the work was completed and must: • be completed by the appraiser, • state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and • be accompanied by photographs of the completed improvements.
	See B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties (06/03/2020), for information about the maximum cost of improvements. See B5-3.2-02, HomeStyle Renovation Mortgages: Loan and Borrower Eligibility (04/03/2019), for information about the maximum cost of improvements that may be included when HomeStyle Renovation is combined with energy-related improvements.
	Lenders must establish a completion escrow for the postponed energy-related improvements by withholding funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
	Lender must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in *Servicing Guide* topic A4-1-02, Establishing Custodial Bank Accounts.
	Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
	The completion escrow may not adversely affect the mortgage insurance or title insurance.
	Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. Any funds remaining in the escrow account after the work is completed must be applied to reduce the unpaid principal balance of the mortgage loan. The value of sweat equity and "Do It Yourself" improvements are not reimbursable.

✓	Requirements for HomeStyle Energy Improvements on Existing Construction
	Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2019-01	February 06, 2019
Announcement SEL-2018-02	February 27, 2018
Announcement SEL-2016–03	March 29, 2016
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2013–03	April 9, 2013
Announcement SEL-2011–06	July 26, 2011
Announcement SEL-2010–15	December 1, 2010
Announcement 08–30	November 14, 2008

Section B4-1.3, Appraisal Report Assessment

B4-1.3-01, Review of the Appraisal Report (10/31/2017)

Introduction

This topic contains information on reviewing the appraisal report, including:

- Overview
- Appraisal Report Analysis

Overview

Fannie Mae's appraisal report forms and the appraisal review requirements for one- to four-unit properties have been developed with the intent that the USPAP standards are followed and that Fannie Mae's policies are supportive of fair lending practices. This topic provides lender requirements related to the transaction details and the property and appraisal eligibility analysis.

Appraisal Report Analysis

When an appraisal is obtained, the lender must analyze the

- current contract for sale for purchase money transactions,
- current offering or listing for sale for both purchase and refinance transactions when the home was listed for sale,
- comparable sales for both purchase and refinance transactions, and
- current ownership for the subject property (see B4-1.1-02, Lender Responsibilities (09/04/2018), for further information).

The lender is responsible for validating that

- the property meets Fannie Mae's eligibility criteria (see B2-3-01, General Property Eligibility (09/02/2020), for eligibility requirements); and
- the appraiser has provided an accurate and reliable opinion of value that reflects the market value, condition, and marketability of the subject property in compliance with Fannie Mae's *Selling Guide* requirements. (See B4-1.3-12, Quality Assurance (06/03/2020), for further information).

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2017-09	October 31, 2017
Announcement SEL-2016–08	October 24, 2016
Announcement SEL-2014–03	April 15, 2014

B4-1.3-02, Subject and Contract Sections of the Appraisal Report (04/15/2014)

Introduction

This topic contains information on reviewing the Subject and Contract sections of the appraisal report form, including:

- Subject Section
- Contract Section

Subject Section

The appraiser must identify the subject property by its complete property address and legal description. The appraiser must enter the physical property address, including the unit number for a condo, in a format that conforms to the United States Postal Service (USPS) address standards in Publication 28 – Postal Addressing Standards (pub28) for complete addresses. Address standards can be found at *usps.com*. The subject address must be populated consistently throughout the form.

When the legal description is lengthy, the appraiser may attach the full legal description as an addendum to the appraisal report. The appraiser must also identify the property rights to be appraised. (For eligibility requirements, see B2-3-01, General Property Eligibility (09/02/2020).)

Fannie Mae's appraisal report forms require the appraiser to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal by selecting either the 'Yes' or the 'No' checkbox. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- offering price(s),

- offering date(s), and
- data source(s) used.

For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

> **Note**: For appraisals required to be UAD compliant, Days on Market (DOM) must be reported.

See *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements*, and the associated FAQ's, for additional information and examples regarding these topics.

Contract Section

The lender must provide the appraiser with a copy of the complete, ratified contract. The appraiser must indicate whether an analysis was or was not performed on the contract for sale. If an analysis was performed, the appraiser must provide the results of the analysis. If an analysis was not performed, the appraiser must provide an explanation why the analysis was not performed.

For appraisals required to be UAD compliant, the appraiser must also indicate the type of sale for the transaction. The appraiser may report any other relevant information in this field or elsewhere in the report regarding the sale type, including whether more than one sale type applies.

The appraiser must

- enter an amount in the Contract Price field if the Assignment Type is a purchase transaction. Contract price must be the same as the sales price for the subject property in the Sales Comparison Approach section;
- enter a contract date if the Assignment Type is a purchase transaction; and
- indicate if the property seller is the owner of record.

The appraiser must indicate if there is any financial assistance such as loan charges, sales concessions or gift, or down payment assistance to be paid by any party on behalf of the borrower, including any closing costs or other payments from the seller or other third party. If there is financial assistance, the appraiser must

- report the total dollar amount of the loan charges or concessions that will be paid (if the appraiser is not able to determine a dollar amount for all or part of the financial assistance, the number must reflect the total known dollar amount); and
- provide a description of the items being paid.

> **Note**: Financial assistance or concessions paid by any party on behalf of the borrower includes both monetary and non-monetary items, including below-market-rate mortgage financing, gifts of personal property, and payment of property taxes or HOA dues for a period of time.

See *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements*, for additional information regarding the Contract Section, and B4-1.3-09, Adjustments to Comparable Sales (01/31/2017), for additional information regarding evaluating sales or financing concessions for comparables.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014
Announcement 08–30	November 14, 2008

B4-1.3-03, Neighborhood Section of the Appraisal Report (06/03/2020)

Introduction

This topic contains information on reviewing the Neighborhood section of the appraisal report form, including:

- Overview
- Neighborhood Analysis
- Degree of Development and Growth Rate
- Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time
- Price Range and Predominant Price
- Over-Improvements
- Age Range and Predominant Age
- Present Land Use

Overview

Neighborhood characteristics and trends influence the value of one- to four-unit residences. Therefore, an analysis of the subject property’s neighborhood is a key element in the appraisal process. As a reminder, Fannie Mae purchases mortgages secured by properties in all neighborhoods and in all areas, as long as the property is acceptable as security for the mortgage based on its value and marketability.

Neighborhood Analysis

Fannie Mae's appraisal report forms and guidelines do not require the appraiser to rate or judge the neighborhood. Fannie Mae requires the appraiser to perform an objective neighborhood analysis by identifying neighborhood boundaries, neighborhood characteristics, and the factors that affect the value and marketability of properties in the neighborhood.

- **Neighborhood boundaries.** The appraiser should provide an outline of the neighborhood boundaries, which should be clearly delineated using 'North', 'South', 'East', and 'West'. These boundaries may include, but are not limited to streets, legally recognized neighborhood boundaries, waterways, or other natural boundaries that define the separation of one neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.
- **Neighborhood characteristics.** These can be addressed by the types of structures (detached, attached) and architectural styles in the neighborhood (such as row or townhouse, colonial, ranch, or Victorian); current land use (such as single-family residential, commercial, or industrial); typical site size (such as 10000 sf, or 2.00 ac); or street patterns or design (such as one-way street, cul-de-sac, or court).
- **Factors that affect the value and marketability of properties in the neighborhood.** These can be addressed by such things as the proximity of the property to employment and amenities, employment stability, appeal to the market, changes in land use, access to public transportation, and adverse environmental influences.

The appraiser must fully consider all of the value-influencing characteristics in the neighborhood and arrive at an appropriate neighborhood description and opinion of value for the property, even if this requires more extensive research for particular property types or for properties in certain geographic locations.

An appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised, based on the actions of typical buyers. The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the neighborhood, but also to define the area from which to select the market data needed to perform a sales comparison analysis.

In performing a neighborhood analysis, the appraiser

- collects pertinent data,
- conducts a visual inspection of the neighborhood to observe its physical characteristics and determine its boundaries, and
- identifies land uses and any signs that the land uses are changing.

Fannie Mae expects the appraiser and the lender's underwriter to be aware of the varying conditions that characterize different types of neighborhoods. Conditions that are typical in certain neighborhoods may not be present in other neighborhoods. This does not mean that the existence of certain types of conditions or characteristics are unacceptable; rather, it is an indication that they must be viewed in context with the nature of the neighborhood in which the security property is located. For example, some neighborhoods consist of a variety of property types that have different uses. It is not uncommon to find properties that have mixed-uses, such as residential properties that also have child-care facilities, doctor or dental offices, and other types of business or commercial uses. The presence of mixed-use properties or a variety of property types within a neighborhood should be viewed as a neighborhood characteristic that the appraiser considers when performing the neighborhood analysis and describing the neighborhood boundaries.

The appraiser must consider the influence of market forces, including but not limited to, economic, governmental, and environmental factors on property values in the neighborhood. Economic forces that must be considered include such things as the existence of vacant or boarded-up properties in the neighborhood, and the level of essential local support services. Examples of governmental forces that should be taken into consideration include the regulations, laws, and taxes that are imposed on properties. Environmental forces that must be considered include, among other things, the existence of a hazardous waste site on or near the property, and the proximity of a property to an airport. Certain other factors that are not appraisal factors, such as the racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a particular neighborhood, must not be considered in the valuation process.

The appraiser must determine, analyze, and consider factors in the valuation process based on his or her identification of all forces or factors that have the potential to influence the value of the property. The appraiser must report neighborhood conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors in a neighborhood. If an appraiser can demonstrate by market evidence that a characteristic has an effect on the value or marketability of the properties in the neighborhood, he or she must consider it in the valuation process. The appraiser must not make unsupported assumptions or interject personal opinion or perceptions about market forces or other factors that may or may not affect the use and value of a property. For example, a property located in an older neighborhood can be as sound an investment as a property located in a new neighborhood.

Degree of Development and Growth Rate

The degree of development of a neighborhood, which is referred to as “built-up” on the appraisal report forms, is the percentage of the available land in the neighborhood that has been improved. The degree of development of a neighborhood may indicate whether a particular property is residential in nature.

When reviewing an appraisal on a property located in a rural or relatively undeveloped area, the lender should focus on the characteristics of the property, zoning, and the present land use to determine whether the property should be considered residential in nature. For example, if the typical one-unit building site in a particular area (based on the zoning, the highest and best use of the land, and the present land use) is two acres in size, the mortgage will be eligible for purchase or securitization regardless of the percentage of the total appraised value of the property that the site represents, as long as the appraiser demonstrates through the use of comparable sales that the property is a typical residential property for that particular neighborhood.

Because Fannie Mae does not purchase or securitize mortgages secured by agricultural-type properties, undeveloped land, or land-development-type properties, the lender must review the appraisal report for properties that have sites larger than those typical for residential properties in the neighborhood. Special attention must be given to the appraiser’s description of the neighborhood, zoning, the highest and best use determination, and the degree of comparability between the subject property and the comparable sales. If the subject property has a significantly larger site than the comparables used in the appraiser’s analysis, the subject property may not be a typical residential property for the neighborhood.

Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time

The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the information in the table below.

Trend of Property Values	Supply of Properties in the Subject Neighborhood	Marketing Time for Properties
• increasing, • stable, or • declining.	• shortage, • in-balance, or • over-supply.	• under three months, • three to six months, or • over six months.

The appraiser's analysis of a property must take into consideration all factors that affect value. Because Fannie Mae purchases mortgages in all markets, this is particularly important for neighborhoods that are experiencing significant fluctuations in property values including sub-markets for particular types of housing within the neighborhood. Therefore, lenders must confirm that the appraiser analyzes listings and contract sales as well as closed or settled sales, and uses the most recent and similar sales available as part of the sales comparison approach, with particular attention to sales or financing concessions in neighborhoods that are experiencing either declining property values, an over-supply of properties, or marketing times over six months. The appraiser must provide his or her conclusions for the reasons a neighborhood is experiencing declining property values, an over-supply of properties, or marketing times over six months.

When completing the One-Unit Housing Trends portion of the Neighborhood section of the appraisal report forms, the trends must be reflective of those properties deemed to be competitive to the property being appraised. If the neighborhood contains properties that are truly competitive (that is, market participants make no distinction between the properties), then all the properties within the neighborhood would be reflected in the One-Unit Housing Trends section. However, when a segmented or bifurcated market is present, the One-Unit Housing Trends portion must reflect those properties from the same segment of the market as the property being appraised. This ensures that the analysis being performed is based on competitive properties. For example, if the neighborhood contains a mix of property types not considered competitive by market participants, then a segmented or bifurcated market is present. The appraiser should also provide commentary on the other segment(s) of the neighborhood when segmentation is present.

Price Range and Predominant Price

The appraiser must indicate the price range and predominant price of properties in the subject neighborhood. The price range must reflect high and low prevailing prices for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type being appraised and the appraisal form being used. Isolated high and low extremes should be excluded from the range, which means that the predominant price will be that which is the most common or most frequently found in the neighborhood. The appraiser must state the predominant price as a single figure using whole numbers.

Over-Improvements

An over-improvement is an improvement that is larger or costlier than what is typical for the neighborhood. For example, a 4,000 square foot home located in an area of homes where the typical home is 2,000 square feet may be considered an over-improvement. Furthermore, a home with an in ground pool in an area where pools are not typical may also be considered an over-improvement. The appraiser must comment on over-improvements and indicate their contributory value in the Sales Comparison Approach adjustment grid.

Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range, such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.

The fact that the property is an over-improvement does not necessarily make the property ineligible. However, lenders must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

Age Range and Predominant Age

The appraiser must indicate the age range and predominant age of properties in the subject neighborhood. The age range should reflect the oldest and newest ages for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type and the appraisal form being used. However, isolated high and low extremes should be excluded from the range. The predominant age is the one that is the most common or most frequently found in the neighborhood. The appraiser must state the predominant age as a single figure using whole numbers.

When the age of the subject property is significantly different than the predominant age range, the appraiser must explain why the age is outside the range and comment on the marketability of the property and the adjustments that were made in the Sales Comparison Approach adjustment grid to reflect that condition.

Present Land Use

Fannie Mae's appraisal report forms provide an area for the appraiser to report the relative percentages of the developed land in the neighborhood when discussing the present land use, rather than simply referring to the zoning classifications. The appraiser must separately report the percentage of developed one-unit sites and two- to four-unit sites. Undeveloped land must be reported in the "Other" field. In addition, if there is a significant amount of undeveloped land in the neighborhood, the appraiser must include comments to confirm that he or she adequately described the neighborhood. If the present land use in the neighborhood is not one of those listed on the appraisal report form, such as parkland, the appraiser also must indicate the type of land use and its related percentage. The total of the types of land uses must equal 100%.

Typically, dwellings best maintain their value when they are situated in neighborhoods that consist of other similar dwellings. However, some factors that are typical of a mixed-use neighborhood, such as easy access to employment centers and a high level of community activity, can actually enhance the market value of the property through increased buyer demand. Neighborhoods may frequently reflect a blend of residential and nonresidential land uses.

When different land uses and property types are present in a neighborhood, that fact should be considered a neighborhood characteristic that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries. To confirm that any positive or negative effects of the mixed land uses are reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same neighborhood whenever possible. If this is not possible, the appraiser may need to make neighborhood or location adjustments to the Sales Comparison Approach adjustment grid for any sales that are not subject to the same neighborhood characteristic.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2014–12	September 30, 2014
Announcement SEL-2014–03	April 15, 2014
Announcement 09–19	June 8, 2009
Announcement 08–30	November 14, 2008

B4-1.3-04, Site Section of the Appraisal Report (06/05/2018)

Introduction

This topic contains information on reviewing the Site section of the appraisal report form, including:

- Overview
- Site Analysis
- Subject Property Zoning
- Highest and Best Use
- Adjoining Properties
- Site Utilities
- Off-Site Improvements
- Community-Owned or Privately Maintained Streets
- Special Flood Hazard Areas

Overview

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

Site Analysis

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. For example, the appraiser may not appraise only 5 acres of an unsubdivided 40–acre parcel. The appraised value must reflect the entire 40–acre parcel.

Subject Property Zoning

The appraiser must report the specific zoning class in the appraisal, along with a general statement as to what the zoning permits, such as one- or two-unit, when he or she indicates a specific zoning such as R-1 or R-2. The appraisal must indicate whether the subject property presents

- a legal conforming use,
- a legal non-conforming (grandfathered) use,
- an illegal use under the zoning regulations, or
- that there is no local zoning.

Fannie Mae only purchases or securitizes mortgage loans on properties if the improvements constitute a legal conforming use of the land. However, Fannie Mae will purchase or securitize a mortgage for a property that constitutes a legal, nonconforming use of the land provided that the appraisal analysis reflects any adverse effect that the nonconforming use has on the value and the marketability of the property. This requirement applies to all property types.

Fannie Mae will not purchase or securitize a mortgage secured by a property that is subject to certain land-use regulations, such as coastal tideland or wetland laws, that create setback lines or other provisions that prevent the reconstruction or maintenance of the property improvements if they are damaged or destroyed. The intent of these types of land-use regulations is to remove existing land uses and to stop land development, including the maintenance or construction of seawalls, within specific setback lines.

For information regarding accessory units that comply or do not comply with zoning, see B4-1.3-05, Improvements Section of the Appraisal Report (09/02/2020).

Highest and Best Use

Fannie Mae will only purchase or securitize a mortgage that represents the highest and best use of the site as improved. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as the reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate. All of those criteria must be met if the improvements are to be considered as the highest and best use of a site.

The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

Adjoining Properties

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Site Utilities

For mortgage loans to be eligible for purchase or securitization, the utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the value and marketability of the subject property (see B4-1.4-08, Environmental Hazards Appraisal Requirements (04/15/2014)).

Off-Site Improvements

Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs and gutters, and street lights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents. If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.

The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

Community-Owned or Privately Maintained Streets

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share;
- default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

Note: If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still deliver the loan. However, the lender is required to indemnify Fannie Mae (as described in A2-1-03, Indemnification for Losses (08/29/2017)) against all losses incurred by Fannie Mae as a result of the physical condition of the street or in order to establish and/or retain access to the street.

Special Flood Hazard Areas

Fannie Mae's appraisal report forms provide an area for the appraiser to indicate whether the property is located in a Special Flood Hazard Area that is identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps. The appraiser must also indicate the specific FEMA flood zone and the map number and its effective date. For additional information concerning Fannie Mae's policies on flood insurance, see B7-3-07, Flood Insurance Coverage Requirements (08/07/2019).

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2016–02	February 23, 2016

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014
Announcement 08–30	November 14, 2008

B4-1.3-05, Improvements Section of the Appraisal Report (09/02/2020)

Introduction

This topic contains information on reviewing the Improvements section of the appraisal report form, including:

- Overview
- Conformity of Improvements to Neighborhood
- Unique Housing Types
- Actual and Effective Ages
- Remaining Economic Life
- Energy Efficient Improvements
- Layout and Floor Plans
- Gross Living Area
- Gross Building Area
- Accessory Dwelling Units
- Additions without Permits
- Properties with Outbuildings

Overview

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs, additional features, and modernization, and should provide supporting addenda, if necessary. If the subject property has an accessory dwelling unit, the appraisal should describe it.

Conformity of Improvements to Neighborhood

The improvements should conform to the neighborhood in terms of age, type, design, and materials used for their construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or with the requirements of the competitive market because of adequacy of plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand, the appraiser must address the impact to the value and marketability of the subject property. However, the lender should be aware that many older neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. For example, older neighborhoods are especially likely to have been developed through custom building. This variety may be a positive marketing factor.

Unique Housing Types

In the appraisal and appraisal report review processes, special consideration must be given to properties that represent unique housing for the subject neighborhood. Mortgages secured by unique or nontraditional types of housing, including, but not limited to, earth houses, geodesic domes, and log houses, are eligible for delivery to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the special or unique property and the more traditional types of houses in the neighborhood and the number of such properties that have already been sold in the neighborhood.

When appraising unique properties,

- if the appraiser cannot locate recent comparable sales of the same design and appeal, but is able to determine sound adjustments for the differences between the comparables that are available and the subject property and demonstrate the marketability of the property based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area, and any other reliable market data, the property is acceptable as security for a mortgage deliverable to Fannie Mae;
- if the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so significantly different that he or she cannot establish a reliable opinion of market value, the property is not acceptable as security for a mortgage deliverable to Fannie Mae.

Fannie Mae does not specify minimum size or living area requirements for properties with the exception of manufactured housing (see B4-1.4-01, Factory-Built Housing: Manufactured Housing (10/02/2018)). There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

Actual and Effective Ages

Fannie Mae does not place a restriction on the actual age of the dwelling. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood.

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or may have a particular physical problem. In such cases, the lender should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser makes adjustments for the "Year Built," he or she must explain the adjustments that were made.

Remaining Economic Life

Fannie Mae does not have any requirements related to the remaining economic life of the property. However, related property deficiencies must be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Fannie Mae's appraisal report forms are designed to meet the needs of several different user groups; consequently, the report forms address the remaining economic life for the property being appraised. However, appraisers are not required to report this information. If appraisers report this information, lenders do not need to consider remaining economic life because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Energy Efficient Improvements

An energy-efficient property is one that uses resource-effective design, materials, building systems, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process and noted on the appraisal report form. For example, when completing the appraisal report (Form 1004), special energy-efficient items are to be addressed in the Improvements section in the Additional features field. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions, differences in utility costs, and overall market reaction to the cost of the feature. Some examples of special energy-efficient features may include, but are not limited to, energy efficient ratings or certifications, programmable thermostats, solar photovoltaic systems, solar panels, low-e windows, insulated ducts, and tank-less water heaters.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the Sales Comparison Approach adjustment grid. Appraisers may augment the Sales Comparison Approach in evaluating any impact (either positive or negative) to the value of energy efficiency improvements with either the income or cost approach; however, appraisers cannot adjust the value of the property

- on a mechanical dollar-for-dollar basis based on equipment and installation cost, or the discounted present value of expected cost savings of the equipment over the useful life of the equipment; or
- solely based on the cost or income approach. The appraiser must also analyze the market reaction to the energy efficient feature.

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property. See B2-3-04, Special Property Eligibility Considerations (09/02/2020), for additional eligibility requirements for properties with solar panels.

Layout and Floor Plans

Dwellings with unusual layouts and floor plans generally have limited market appeal. A review of the room list and floor plan for the dwelling unit may indicate an unusual layout, such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, he or she must make appropriate adjustments to reflect this in the overall analysis. However, if market acceptance can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

Gross Living Area

The most common comparison for one-unit properties, including units in PUD, condo, or co-op projects, is above-grade gross living area. The appraiser must be consistent when he or she calculates and reports the finished above-grade room count and the square feet of gross living area that is above-grade. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count and gross living area should not change.

When calculating gross living area

- The appraiser should use the exterior building dimensions per floor to calculate the above-grade gross living area of a property.
- For units in condo or co-op projects, the appraiser should use interior perimeter unit dimensions to calculate the gross living area.
- Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.

For consistency in the sales comparison analysis, the appraiser should compare above-grade areas to above-grade areas and below-grade areas to below-grade areas. The appraiser may need to deviate from this approach if the style of the subject property or any of the comparables does not lend itself to such comparisons. For example, a property built into the side of a hill where the lower level is significantly out of ground, the interior finish is equal throughout the house, and the flow and function of the layout is accepted by the local market, may require the gross living area to include both levels. However, in such instances, the appraiser must be consistent throughout the appraisal in his or her analysis and explain the reason for the deviation, clearly describing the comparisons that were made.

Gross Building Area

The gross building area

- is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements;
- is the most common comparison for two- to four-unit properties;

- must be consistently developed for the subject property and all comparables used in the appraisal;
- must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and
- cannot count exterior common areas, such as open stairways.

Fannie Mae will accept the use of other comparisons for two- to four-unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser

- explains the reasons he or she did not use a gross building area comparison, and
- clearly describes the comparisons that were made.

Accessory Dwelling Units

An ADU is generally an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. The ADU must have basic requirements for living, sleeping, cooking, and bathroom facilities on the same parcel as the primary dwelling. See B2-3-04, Special Property Eligibility Considerations (09/02/2020), for complete ADU eligibility requirements.

When reporting the living area of an ADU, it should not be included with the Gross Living Area calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.

Whether a property is defined as a one-unit property with an ADU or a two- to four-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. When there is an ADU, the appraisal report must include a description of the ADU and analysis of any effect it has on the value or marketability of the subject property. The appraisal report must demonstrate that the improvements are acceptable for the market. An aged settled sale will qualify as a comparable, and an active listing or under contract sale will qualify as a supplemental exhibit to show marketability.

Zoning for an ADU

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The illegal use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal report states that the improvements represent a use that does not comply with zoning (“illegal” use).
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning

use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.

See B4-1.3-04, Site Section of the Appraisal Report (06/05/2018), for subject property zoning information.

Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

Properties with Outbuildings

A lender must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

Type of Outbuilding	Acceptability
Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.	The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal outbuilding.	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-05	September 02, 2020
Announcement SEL-2020-04	August 05, 2020

Announcements	Issue Date
Announcement SEL-2016–08	October 24, 2016
Announcement SEL-2015–10	September 29, 2015
Announcement SEL-2014–16	December 16, 2014
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2011–11	October 25, 2011
Announcement 08–30	November 14, 2008

B4-1.3-06, Property Condition and Quality of Construction of the Improvements (04/15/2014)

Introduction

This topic contains information on property condition and quality of construction, including:

- Appraiser Selection of Condition, Quality, and other Characteristic Ratings
- Property Condition
- Property Condition Ratings
- Identifying Property Condition
- Definitions of Not Updated, Updated, and Remodeled
- Appraisals Completed "As Is"
- Quality of Construction Rating
- Identifying Quality of Construction
- Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property
- Infestation, Dampness, or Settlement

Appraiser Selection of Condition, Quality, and other Characteristic Ratings

The Condition and Quality ratings must be based on a holistic view of the property and any improvements. When selecting the Condition and Quality ratings, an appraiser must

- consider all improvements to determine an overall Condition and Quality rating. The appraiser should select the rating that best reflects the property as a whole and in its entirety.

- describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the property relates or compares to other properties in the neighborhood. Additionally, the Condition and Quality ratings for comparable properties must be made on an absolute basis (again, each comparative property on its own merits), not on a relative basis, and reflect the property as of the date of sale of that comparable property.

  Note: These requirements also apply to all other ratings or descriptions, including the View and Location.

When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that property remains a C4 when using that specific sale as a comparable in future reports. The same expectation holds true for ratings and descriptions of comparable sales. When a comparable is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one appraisal to the next when it reflects the same sale transaction.

> **Note**: Properties can have the same rating or description and still require an adjustment. It should be noted that this does not only apply to Condition and Quality ratings and can apply to other ratings or descriptions as well. For example, all water views may not be equal. In this instance, an adjustment should be made and explained in the Additional Comments section of the form or in an addendum.

Property Condition

Lenders must take the necessary steps to confirm that a property meets Fannie Mae’s condition requirements as outlined in this topic.

The table below provides the requirements for property condition.

✓	Requirements
	The appraisal report must express an opinion about the condition of the improvements based on the factual data of the improvements analysis.
	Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property. **Note**: Appraisers are not responsible for hidden or unapparent conditions.
	Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as, but not limited to, needed repairs, deterioration, or the presence of hazardous wastes, toxic substances, or adverse environmental conditions.
	Detrimental conditions of the improvements must be reported in the appraisal even if the conditions are typical for competing properties.
	The appraiser must consider and describe the overall condition and quality and condition of the property improvements. (See Identifying Property Condition; Definitions of Not Updated, Updated, and Remodeled; and Identifying Quality of Construction in this topic for details.)

✓	Requirements
	The appraiser must identify • items that require immediate repair; and • items where maintenance may have been deferred, which may or may not require immediate repair.
	The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

Property Condition Ratings

For appraisals required to be completed with the UAD, the appraiser must assign one of the following standardized Condition ratings in the table below when identifying the condition of the improvements for the subject property and comparable sales.

Rating	Description
C1	The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new and the dwelling features no physical depreciation. **Note**: *Newly constructed improvements that feature recycled materials and/or components can be considered new dwellings provided that the dwelling is placed on a 100 percent new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition. Improvements that have not been previously occupied are not considered "new" if they have any significant physical depreciation (that is, newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).*
C2	The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction. **Note**: *The improvements represent a relatively new property that is well-maintained with no deferred maintenance and little or no physical depreciation, or an older property that has been recently completely renovated.*
C3	The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained. **Note**: *The improvement is in its first-cycle of replacing short-lived building components (appliances, floor coverings, HVAC, etc.) and is being well– maintained. Its estimated effective age is less than its actual age. It also may reflect a property in which the majority of short-lived building components have been replaced but not to the level of a complete renovation.*

Rating	Description
C4	The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate. **Note**: *The estimated effective age may be close to or equal to its actual age. It reflects a property in which some of the short-lived building components have been replaced, and some short-lived building components are at or near the end of their physical life expectancy; however, they still function adequately. Most minor repairs have been addressed on an ongoing basis resulting in an adequately maintained property.*
C5	The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to condition, but the dwelling remains useable and functional as a residence. **Note**: *Some significant repairs are needed to the improvements due to the lack of adequate maintenance. It reflects a property in which many of its short-lived building components are at the end of or have exceeded their physical life expectancy, but remain functional.*
C6	The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components. **Note**: *Substantial repairs are needed to the improvements due to the lack of adequate maintenance or property damage. It reflects a property with conditions severe enough to affect the safety, soundness, or structural integrity of the improvements.*

Identifying Property Condition

As previously noted, the Condition rating selected for the property must reflect a holistic view of the condition of the property improvements. It would be inappropriate to select either a lower or higher overall rating on the basis of one or two minor inferior or superior areas of the property improvements. However, the C6 rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a C6, the whole dwelling must be rated a C6.

Properties with a Condition Rating of C6 are eligible for sale to Fannie Mae provided any deficiencies that impact the safety, soundness, or structural integrity of the property are repaired prior to delivery of the loan. See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property in this topic for information related to completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Definitions of Not Updated, Updated, and Remodeled

For appraisals required to be completed using the UAD, as a subset of identifying the condition of the subject property, the appraiser must also identify the level of updating, if any, that the subject property has received by utilizing the definitions in the table below.

Level of Updating	Description
Not Updated	Little or no updating or modernization. This description includes, but is not limited to, new homes. Residential properties of fifteen years of age or less often reflect an original condition with no updating, if no major components have been replaced or updated. Those over fifteen years of age are also considered not updated if the appliances, fixtures, and finishes are predominantly dated. An area that is 'Not Updated' may still be well-maintained and fully functional, and this rating does not necessarily imply deferred maintenance or physical/functional deterioration.
Updated	The area of the home has been modified to meet current market expectations. These modifications are limited in terms of both scope and cost. An updated area of the home should have an improved look and feel, or functional utility. Changes that constitute updates include refurbishment and/or replacing components to meet existing market expectations. Updates do *not* include significant alterations to the existing structure.
Remodeled	Significant finish and/or structural changes have been made that increase utility and appeal through complete replacement and/or expansion. A remodeled area reflects fundamental changes that include multiple alterations. These alterations may include some or all of the following: replacement of a major component (cabinet(s), bathtub, or bathroom tile), relocation of plumbing/gas fixtures/appliances, significant structural alterations (relocating walls, and/or the addition of square footage). This would include a complete gutting and rebuild.

Appraisals Completed "As Is"

Fannie Mae permits appraisals to be based on the "as is" condition of the property provided existing conditions are minor and do not affect the safety, soundness, or structural integrity of the property, and the appraiser's opinion of value reflects the existence of these conditions.

Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property. While such conditions generally do not rise to the level of a required repair, they must be reported. Examples of minor conditions and deferred maintenance include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass.

Condition Ratings C1, C2, C3, C4, and C5 as previously defined are eligible for delivery in "as is" condition. Properties with the initial Condition Rating C6 indicate one or more deficiencies that impact the safety, soundness, or structural integrity of the property. Therefore, the appraisal must be completed subject to completion of the deficient item(s).

See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property in this topic for additional details when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Quality of Construction Rating

For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

Rating	Description
Q1	Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.
Q2	Dwellings with this quality rating are often custom designed for construction on an individual property owner’s site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.
Q3	Dwellings with this quality rating are residences of higher quality built from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner’s site. The design includes significant exterior ornamentation and interiors that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from “stock” standards.
Q4	Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements and upgrades.
Q6	Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwellings may feature one or more substandard or nonconforming additions to the original structure.

Identifying Quality of Construction

The same approach used in identifying the condition of the property is also applicable to identifying the quality of construction. The selected rating must reflect a holistic view of the quality of construction. However, the Q6 Rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a Q6, the whole dwelling must be rated a Q6.

Properties with a quality of construction rating of Q6 are eligible for sale to Fannie Mae provided any items in relation to the quality of construction that impact the safety, soundness, or structural integrity of the property are repaired prior to the delivery of the loan. See Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property in this topic for requirements when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to confirm that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to confirm the necessary alterations or repairs have been completed prior to delivery of the loan.

Infestation, Dampness, or Settlement

If the appraisal indicates evidence of wood-boring insects, dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2011–06	July 26, 2011

B4-1.3-07, Sales Comparison Approach Section of the Appraisal Report (04/15/2014)

Introduction

This topic contains information on reviewing the Sales Comparison Approach section of the appraisal report form, including:

- Overview
- Data and Verification Sources of Comparable Sales
- Prior Sales History of the Subject and Comparable Sales

Overview

The sales comparison approach to value is an analysis of comparable sales, contract sales, and listings of properties that are the most comparable to the subject property.

The appraiser's analysis of a property must take into consideration all factors that have an effect on value. The appraiser must analyze all closed sales, contract sales, and offerings or listings of properties that are the most comparable to the subject property in order to identify any significant differences or elements of comparison that could affect his or her opinion of value for the subject property as of the effective date of the appraisal report. This is particularly important in changing (increasing or declining values) markets. Analyzing closed sales, contract sales, and offerings or listings is an important analysis in any market and will result in more accurate reporting on market conditions, including trends that indicate that sale prices for contract sales and asking prices for recent offerings or listings have changed. (Also see B4-1.3-03, Neighborhood Section of the Appraisal Report (06/03/2020), for information regarding Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time.)

Data and Verification Sources of Comparable Sales

Data and verification source(s) for each comparable sale must be reported on the appraisal report form. Examples of data sources include, but are not limited to, a multiple listing service, deed records, tax records, realtors, builders, appraisers, appraiser's files, and other third party sources and vendors. The appraiser must state the specific data source (such as tax records or deed records), and refrain from using broad categories, such as “public records.” Data source(s) must be reliable sources for the area where the subject property is located.

Examples of verification sources include, but are not limited to, the buyer, seller, listing agent, selling agent, and closing documents in certain situations. Regardless of the source(s) used, there must be sufficient data to understand the conditions of sale, existence of financing concessions, physical characteristics of the subject property, and whether it was an arms-length transaction.

It is acceptable to obtain comparable sales data from parties that have a financial interest in either the sale or financing of the subject property; however, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction. For example, if the real estate agent of the subject property has provided comparable sales data, that information must be verified through another disinterested source.

Prior Sales History of the Subject and Comparable Sales

Fannie Mae’s appraisal report forms require the appraiser to report the three year subject property and twelve month comparable sales history.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2010–09	June 30, 2010
Announcement 08–30	November 14. 2008

B4-1.3-08, Comparable Sales (10/02/2018)

Introduction

This topic contains information on selection of comparable sales, including:

- Selection of Comparable Sales
- Minimum Number of Comparable Sales
- Age of the Comparable Sales

- Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS
- Rural Properties
- Use of Foreclosures and Short Sales

Selection of Comparable Sales

The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible, and must be used in certain instances (see below). Sale activity from within the neighborhood is the best indicator of value for properties in that neighborhood as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser's analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist. The appraiser must also provide an explanation as to why he or she used the specific comparable sales in the appraisal report and include a discussion of how a competing neighborhood is comparable to the subject neighborhood.

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood, the appraiser might need to use as comparable sales, properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents his or her analysis and explains why these sales were used. (For additional information, see B4-1.3-03, Neighborhood Section of the Appraisal Report (06/03/2020).

When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms of miles and include the applicable directional indicator (for example, “1.75 miles NW”). The distance between the subject property and each comparable property is to be measured using a straight line between the properties.

Minimum Number of Comparable Sales

A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

In no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three closed comparables, these transactions, which are often completed as part of a construction-to-permanent loan transaction, may be included as additional support with appropriate commentary.

Age of the Comparable Sales

Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate 3 truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as he or she explains why they are being used.

Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS

If the subject property is located in a new (or recently converted) condo, subdivision, or PUD, then it must be compared to other properties in the neighborhood as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and the properties within them. The appraiser must select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, provided it is a good indicator of value for the subject property. Two of the sales must be verifiable from reliable data sources, other than the builder. Sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project provided the developer or builder of the subject property is not involved in the transactions.

In the event there are no closed sales inside a new subject project or subdivision because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project or subdivision in lieu of one closed sale. When the appraiser is using two pending comparable sales in lieu of a closed sale, the appraiser must also use at least three closed comparable sales from projects or subdivisions outside of the subject property's project or subdivision.

To meet the requirement that the appraiser utilize one comparable sale from inside the subject subdivision or project, the appraiser may need to rely solely on the builder of the property he or she is appraising, as this data may not yet be available through typical data sources (for example, public records or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the settlement statement from the builder's file.

When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale. (For special appraisal considerations regarding condo projects, see B4-1.4-03, Condo Appraisal Requirements (04/15/2014), and B4-2, Project Standards.)

Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

Use of Foreclosures and Short Sales

It is acceptable to use foreclosures and short sales as comparables if the appraiser believes they are the best and most appropriate sales available. The appraiser must address in the appraisal report the prevalence of such sales in the subject's neighborhood and the impact, if any, of such sales. The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it. The appraiser cannot assume it is equal to the subject property. For example, a foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. For appraisals that are required to be UAD compliant, the appraiser must identify the sale type as REO sale or Short sale, as appropriate. (For specific information regarding comparable sale adjustments, see B4-1.3-09, Adjustments to Comparable Sales (01/31/2017), and for information regarding financing types, see *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements*).

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	**Issue Date**
Announcement SEL-2018-08	October 02, 2018
Announcement SEL-2017–01	January 31, 2017
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2011–11	October 25, 2011
Announcement SEL–2010–09	June 30, 2010
Announcement 08–30	November 14, 2008

B4-1.3-09, Adjustments to Comparable Sales (01/31/2017)

Introduction

This topic contains details on selected adjustments to the comparable sales, including:

- Analysis of Adjustments
- Sales or Financing Concessions
- Date of Sale and Time Adjustments
- Appraiser's Comments and Indicated Value in the Sales Comparison Approach

Analysis of Adjustments

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however this is rarely the case as typically no two properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market based adjustments) to the difference in the properties. For example, it would be inappropriate for an appraiser to provide a $20 per square foot adjustment for the difference in the gross living area based on a rule-of-thumb when market analysis indicates the adjustment should be $100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to arbitrary limits on the size of the adjustment.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported. (For further information regarding comparable selection, see B4-1.3-08, Comparable Sales (10/02/2018).)

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make adjustments to reflect the actions of typical purchasers in that market.

Sales or Financing Concessions

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the comparables based on the market at the time of sale. For information related to sales or financing concessions for the subject transaction, see B3-4.1-02, Interested Party Contributions (IPCs) (08/07/2019).

Examples of sales or financing concessions include:

- interest rate buydowns or other below-market rate financing;
- loan discount points;

- loan origination fees;
- closing costs customarily paid by the buyer;
- payment of condo, co-op, or PUD fees or assessment charges;
- refunds of (or credit for) the borrower's expenses;
- absorption of monthly payments;
- assignment of rent payments; and
- inclusion of non-realty items in the transaction.

The dollar amount of sales or financing concessions paid by the seller must be reported for the comparable sales if the information is reasonably available (see UAD *Appendix D: Field–Specific Standardization Requirements*, for data entry instructions). Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data source. If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available. If the appraisal report form does not provide enough space to discuss this information, the appraiser must make an adjustment for the concessions on the form and include an explanation in an addendum to the appraisal report.

The amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than the value of the real estate. Adjustments based on dollar-for-dollar deductions that are equal to the cost of the concessions to the seller, as a strict cash equivalency approach would dictate, are not appropriate.

Fannie Mae recognizes that the effect of sales or financing concessions on sales prices can vary with the amount of the concessions and differences in various markets. Adjustments must reflect the difference between what the comparables actually sold for with the sales or financing concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions. If the appraiser's analysis determines that the market's reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.

Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property. Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.

Date of Sale and Time Adjustments

The date of sale and the time adjustment (market conditions) are critical elements in determining an accurate value because the appraisal is based on a specific date in time (effective date of appraisal). The comparable sales being considered must be analyzed by the appraiser to determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal. This analysis will determine whether a time adjustment is warranted. Adjustments may be either positive or negative depending on the market changes over the time period analyzed. Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the appraisal report.

When completing Fannie Mae's appraisal report forms, the appraiser should provide the date of the sales contract and the settlement or closing date. Only the month and year need to be reported. For example, appraisers may use "s04/10" or "c02/10" where "s" reflects the settlement or closing date and "c" reflects the contract date. If the exact date is necessary to understand the adjustments, it must be explained elsewhere in the report or in an addendum. If the contract date is unavailable to the appraiser in the normal course of business, the appraiser must enter the abbreviation "Unk" for unknown, in place of the contract date.

Appraiser's Comments and Indicated Value in the Sales Comparison Approach

The appraiser must provide appropriate comment(s) reflecting the logic and reasoning for the adjustments provided, especially for the characteristics reported on the appraisal report form between the Sales or Financing Concessions and the Condition line items. A statement only recognizing that an adjustment has been made is not acceptable. When appropriate, the appraiser's analysis should also include narrative comments about a current contract, offering, or listing for the subject or comparable sales, current ownership, and recent prior sales or transfers. Additionally, the appraiser's comments must reflect his or her reconciliation of the adjusted (or indicated) values for the comparable sales and identify why the sale(s) were given the most weight in arriving at the indicated value for the subject property. It should be noted that the indicated value in the Sales Comparison Approach must be within the range of the adjusted sales price of the comparables that are reported in the appraisal report form.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2017–01	January 31, 2017
Announcement SEL-2014–16	December 16, 2014
Announcement SEL-2014–03	April 15, 2014
Announcement 09–19	June 8, 2009
Announcement 08–30	November 14, 2008

B4-1.3-10, Cost and Income Approach to Value (04/15/2014)

Introduction

This topic contains information on reviewing the cost approach and the income approach, including:

- Cost Approach to Value
- Income Approach to Value

Cost Approach to Value

Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary for credible assignment results, then the cost approach must be provided. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. This approach, then, measures value as a cost of production. It may be appropriate to use the cost approach when appraising new or proposed construction, property that is undergoing renovation, unique property, or property that features functional depreciation, to support the sales comparison approach analysis. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

If the appraiser has completed the cost approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report. For example, if the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an amount indicated for external depreciation in the cost approach. Or, if the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, lenders should expect to see an amount indicated for functional depreciation.

Income Approach to Value

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required in the valuation of two-unit to four-unit properties and may be appropriate in neighborhoods that consist of one-unit properties when there is a substantial rental market. The income approach to value may not be appropriate in areas that consist mostly of owner-occupied properties because adequate rental data does not exist for those areas. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. If the appraiser believes the income approach is necessary for credible assignment results, then the income approach must be included. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. If the appraiser has completed the income approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with comments mentioned elsewhere in the report.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.3-11, Valuation Analysis and Reconciliation (04/15/2014)

Introduction

This topic contains information on reviewing the valuation analysis and final reconciliation, including:

- Overview
- Reconciliation

Overview

The valuation sections of Fannie Mae's appraisal report forms enable an appraiser to develop and report, in a concise format, an adequately supported opinion of market value based on the cost, sales comparison, and income approaches to value, as applicable. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, he or she should provide additional supporting data in an addendum to the appraisal report form.

Reconciliation

In the Reconciliation section of the appraisal report form, the appraiser considers the reliability and applicability of each of the approaches to value that was utilized in the appraisal report. After consideration of each of the approaches to value, the appraiser will provide his or her final value opinion. In the Reconciliation section, appraisers must

- reconcile the reasonableness and reliability of each applicable approach to value,

- reconcile the reasonableness and validity of the indicated values,
- reconcile the reasonableness of available data, and
- select and report the approach or approaches that were given the most weight.

The reconciliation is based on the appraiser's judgment of the results developed as part of the valuation process and must never be an averaging technique with the exception of the use of a weighted average technique that includes proper explanation. The final reconciled indicated value must be within the range of the values indicated by the Approaches used in the appraisal report form.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.3-12, Quality Assurance (06/03/2020)

Introduction

This topic contains information on changes to the appraised value, appraisal deficiencies, and quality assurance, including:

- Changes to the Appraised Value
- Guidance on Addressing Appraisal Deficiencies
- Lender Requirements
- Fannie Mae's Referrals to State Appraiser Boards
- Refusal to Accept Appraisals from Specific Appraisers

Changes to the Appraised Value

The lender is responsible for confirming that appraisal reports are complete and that any changes to the reports are made by the appraiser that originally completed the report. If the lender has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, the lender must attempt to resolve its concerns with the appraiser that originally prepared the report. If the lender is unable to resolve its concerns with the appraiser, the lender must obtain a replacement report prior to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount. For information concerning the process lenders must follow to address a change of the opinion of market value, see Guidance on Addressing Appraisal Deficiencies in this topic.

Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. Fannie Mae believes that one of the best ways lenders can reduce the risk associated with excessive values or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers.

Guidance on Addressing Appraisal Deficiencies

If the lender considers an appraisal deficient, the lender has the following options for addressing the deficiencies:

- contacting the appraiser to address deficiencies contained in the appraisal report,
- obtaining a desk review or a field review of the original appraisal, or
- obtaining a new appraisal of the subject property.

The lender can return the appraisal report to the appraiser that completed the assignment, identify the deficiencies found, and provide justification for requesting correction of the deficiencies the lender believes make the report unreliable.

If the lender is unable to obtain a revised appraisal that adequately addresses its concerns, a desk or field review of the report may be obtained. The review must be completed in accordance with the USPAP. Because the Scope of Work for either type of review allows for a change of the opinion of market value for something other than a mathematical error, the appraiser completing the appraisal review must

- be licensed or certified in the state in which the property is located,
- have access to the appropriate data sources, and
- possess the knowledge and experience to appraise the subject property with respect to both the specific property type and geographical location.

The lender may forego either type of review and obtain a new appraisal. When a new appraisal is obtained, the lender must document the deficiencies that are the basis for ordering the new appraisal and adhere to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value. The lender must either document the resolution of the noted deficiencies in the original appraisal or detail the reasons for relying on a second opinion of market value.

Lender Requirements

A lender must continually evaluate the quality of the appraiser’s work through the normal review process of all appraisal reports, as well as through the spot-check field review or desk review of appraisals as part of its quality assurance system. For detailed requirements, see D1-3-04, Lender Post-Closing Quality Control Review of Appraisers and Appraisals (04/03/2019).

Fannie Mae's Referrals to State Appraiser Boards

Fannie Mae conducts different levels of due diligence for quality control purposes and may refer unacceptable appraisal reports to state appraiser licensing or regulatory boards for investigation.

Fannie Mae's objectives in referring appraisal reports to state appraiser licensing or regulatory boards are

- to emphasize continuing efforts to maintain the quality of appraisals,
- to protect Fannie Mae's interest,
- to improve the quality of mortgages delivered to Fannie Mae by identifying appraisers that have performed appraisals of a sufficiently poor quality as to impair the security interests,
- to help the industry enhance the quality of appraisals by identifying and referring appraisals that are not adequately supported or credible, and
- to help enforce professional standards.

Note: Fannie Mae's decision to make such referrals does not affect the lender's responsibility for managing the property valuation and appraisal review process.

Refusal to Accept Appraisals from Specific Appraisers

Fannie Mae may refuse to accept appraisals prepared by specific appraisers, or Fannie Mae may notify a lender that appraisals prepared by a given appraiser are no longer accepted. When a lender is notified that appraisals from specific appraisers are no longer accepted, the lender is prohibited from delivering mortgages to Fannie Mae secured by properties appraised by that individual immediately following its receipt of Fannie Mae's notice.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2018-01	January 30, 2018
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2013–05	July 30, 2013
Announcement SEL-2010–09	June 30, 2010

Section B4-1.4, Special Appraisal and Other Valuation Considerations

B4-1.4-01, Factory-Built Housing: Manufactured Housing (10/02/2018)

Introduction

This topic contains information on manufactured housing appraisal requirements, including:

Overview

Fannie Mae requires market-based property valuations for manufactured homes demonstrated by a well-developed sales comparison approach to value that is further supported by the cost approach to value.

For manufactured housing property eligibility requirements, including special appraisal requirements for MH Advantage properties, see B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (12/04/2018). For manufactured housing mortgage eligibility and underwriting requirements, see B5-2, Manufactured Housing.

Manufactured Housing Appraiser Qualifications

The valuation principles for appraising manufactured homes are essentially the same as for other types of residential property. However, not all appraisers are knowledgeable and experienced about the unique construction process, as well as the manufacturers' and federal, state, and local requirements for both construction and installation.

The lender must ensure that the appraiser is knowledgeable about the local manufactured home market and the unique construction process for manufactured homes, and has access to appropriate data sources in order to render an opinion of value for the manufactured home. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements as well as the *Appraiser Independence Requirements*.

Manufactured Housing Appraisal Requirements and Standards

The list below provides requirements and standards for manufactured housing appraisals.

- For purchase money mortgages, the lender must provide the appraiser with
  - a complete copy of the executed contract for sale of the manufactured home and land; or
  - a complete copy of the executed contract for both, if the manufactured home and land are purchased separately; and
  - a copy of the manufacturer's invoice if the manufactured home is new.

  The appraiser must analyze the contract(s) and the manufacturer's invoice for new manufactured homes, and provide a summary in the appraisal report.
- The appraiser must report the results of a manufactured home appraisal on the *Manufactured Home Appraisal Report* (*Form 1004C*). The use of Form 1004C will help to ensure that the appraiser inspected, considered, and reported the appropriate information including, but not limited to, the:
  - manufacturer's name,
  - trade or model number,
  - year of manufacture,
  - serial number,
  - Certification Label number(s) from either the HUD Data Plate or Certification Label(s),
  - type of foundation and utility connections,
  - detailed and supported cost approach,
  - opinion of the market value of the site, and
  - property's conformity to the neighborhood.
- The appraiser must indicate a value conclusion based solely on the real property as completed consisting of the
  - manufactured home,
  - site improvements, and
  - land on which the home is situated.

The value conclusion cannot include any non-realty items including, but not limited to, insurance, warranties, and furniture.

Newly Constructed Manufactured Housing Appraisal Requirements

For new manufactured homes not yet attached to the land or not yet constructed, the appraisal may be based on either plans and specifications or an existing model home. If required information is not available at the time the appraiser is completing the appraisal forms, the appraiser must appraise the property subject to his or her receipt and review of the items and completion of the improvements as a condition of the appraisal. Information that may not be available can include, but is not limited to, the dealer invoice, the HUD Data Plate, and the Certification Label numbers.

A certification of completion must be obtained before the mortgage is delivered to Fannie Mae. The certification must

- be completed by the original appraiser if possible, or if not possible, by a substitute appraiser as provided for in B4-1.2-02, Appraisal Age and Use Requirements (06/05/2018);
- verify and state that the improvements were completed and all other requirements and conditions of the appraisal have been satisfied;
- include previously unavailable information, including a summary of the appraiser's analysis of any previously unavailable dealer invoice; and
- include photographs of the completed improvements attached to the permanent foundation.

  Note: If the original or alternative documentation cannot be obtained for both the Data Plate/Compliance Certificate and the Certification Label, the loan is not eligible for delivery to Fannie Mae. For information regarding methods of alternative documentation and eligibility considerations, see B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (12/04/2018).

Manufactured Housing Appraisal Site Requirements

The appraisal site requirements for manufactured housing are as follows:

- The appraiser must base his or her opinion of value on the characteristics of the subject property, including the site area. The appraisal report must indicate whether or not the site is compatible with the neighborhood, and must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood.
- The property site must be of a size, shape, and topography that is conforming and acceptable in the neighborhood. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and valuation. The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood.

Manufactured Housing Appraisal Comparable Selection Requirements Excluding MH Advantage

The comparable selection requirements for manufactured housing appraisals, excluding MH Advantage are as follows:

- The appraiser must select comparable sales of similar manufactured homes to address the marketability and comparability of a manufactured home, for example, multi-width homes to multi-width homes. The appraiser must use a minimum of two comparable sales of similar manufactured homes. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and make and support appropriate adjustments in the appraisal report.

- In markets where condo projects with manufactured homes are more common, at least two comparables should be manufactured homes located in a condominium project. In markets where condo projects with manufactured homes are atypical, the appraiser may select comparables from a mixture of manufactured homes and manufactured home condos provided the appraiser is able to provide adequate written explanation and make appropriate adjustments.
- An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the "sales comparison analysis" and determine sound adjustments to reflect the differences between comparable sales that are available and the subject property.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

MH Advantage Appraisal Comparable Selection Requirements

For MH Advantage properties, appraisers must use other MH Advantage homes, when available, for the comparable sales. If fewer than three MH Advantage sales are available, then the appraiser must supplement with the best and most appropriate sales available, which may include site-built homes. See B4-1.3-08, Comparable Sales (10/02/2018) , for additional information.

Manufactured Housing Appraisal Cost Approach Requirements

Fannie Mae requires a detailed and supported cost approach to value for all manufactured homes which must, at a minimum, contain the information indicated on the Form 1004C. The appraiser may choose to report the results of the cost approach on Form 1004C or by using a report form from a published cost service as an addendum to the appraisal report form. Whatever format the appraiser chooses to report the cost approach, the information must be sufficient to allow the lender to replicate the cost figures and calculations. The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion. A properly developed and detailed cost approach will provide the information necessary for an appraiser to

- recognize differences in manufactured home construction quality,
- understand the difference between the comparable sales and the subject property,
- extract from the market appropriate adjustments for the sales comparison analysis, and
- identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

Sources of Manufactured Housing Data

Traditional appraisal data sources do not provide enough quality manufactured home data for the appraiser to develop a supportable and well-documented manufactured home appraisal. While sources such as MLS and public records are important and may contain some data, appraisers must utilize other data sources, such as manufactured home dealers and construction companies/builders experienced in the installation of manufactured homes.

One important source of manufactured housing information is the *NADA Manufactured Housing Appraisal Guide*. That publication

- lists general manufactured home depreciated replacement values based on original factory construction categories, and
- offers a step-by-step process for arriving at the average retail book value for a manufactured home and can be used to develop a cost approach.

  Note: NADA chart values assume the home is in average condition. The publication provides definitions for "excellent," "good," "average," "fair," and "poor" to appropriately identify the condition of the manufactured home.

Another source of information is Marshall & Swift's *Residential Cost Handbook.* Marshall & Swift provides

- information that enables the user to arrive at an estimate of the cost of the manufactured home when new and the replacement cost based on, among other things, the construction quality; as well as
- an explanation of the items that enables the appraiser to support his or her conclusion of the overall construction quality of the manufactured home.

The appraiser must support his or her opinion about both the quality and the condition of the manufactured home because they play a very important role in the value and marketability of manufactured homes. The NADA guide or the Marshall & Swift handbook may be used as additional sources to provide support for the appraiser's conclusions about the quality and value of a manufactured home.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2018-08	October 02, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2014–03	April 15, 2014

B4-1.4-02, Factory-Built Housing: Modular, Prefabricated, Panelized, or Sectional Housing (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for modular, prefabricated, panelized, or sectional housing, including:

- Overview
- Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing
- Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

Overview

Modular homes must be built under the Uniform Building Code (UBC) that is administered by the state agency that is responsible for adopting and administering building code requirements for the state in which the modular home is installed. Prefabricated, panelized, or sectional housing does not have to satisfy either HUD's Federal Manufactured Home Construction and Safety Standards or the UBC that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be installed.

For modular, prefabricated, panelized, or sectional housing eligibility requirements, see B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (12/04/2018).

Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes, or any other types of factory-built homes. Because quality can account for large differences in the values of factory-built homes, it is important for the appraiser to become familiar with the features that affect the quality of a factory-built home so that the information can be included in the appraisal report if needed to support his or her opinion of value.

Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. Fannie Mae requires the appraiser to address both the marketability and comparability of modular homes and other types of factory-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, it is not required that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value. Fannie Mae requires the appraiser to include in the appraisal report the most appropriate comparable sales data to support his or her opinion of value for the subject property. See B4-1.3-08, Comparable Sales (10/02/2018), for general requirements regarding comparable selection.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.4-03, Condo Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for units located in condo projects, including:

- Overview
- Appraisal Requirements for Units in a Condo Project

Overview

A condo project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project.

Appraisal Requirements for Units in a Condo Project

The appraisal of an individual unit in a condo project requires the appraiser to analyze the condo project as well as the individual unit. The value and marketability of the individual units in a project depend on the marketability and appeal of the project itself. Therefore, the appraiser must pay special attention to

- the location of the individual unit within the project,
- the project amenities, and
- the amount and purpose of the owner's association assessment.

See B4-1.3-08, Comparable Sales (10/02/2018), for general requirements regarding comparable selection.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.4-04, Co-op Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for units in co-op projects, including:

- Overview
- Appraisal Requirements for Co-op Share Loans
- Comparable Selection Requirements for Co-op Share Loans
- Comparable Selection Requirements for Co-op Share Loans in Established Projects
- Comparable Selection Requirements for Co-op Share Loans in New (or Recently Converted) Projects

Overview

A co-op corporation holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements. The co-op interest is the co-op shares or other evidence of an ownership interest in the co-op corporation and the accompanying occupancy rights, excluding the co-op interest's *pro rata* share of the debt service of the blanket mortgage. In other words, the co-op interest is the equity portion that is over and above the *pro rata* share of the blanket mortgage(s).

> **Note**: The lender is required to receive Fannie Mae approval to deliver mortgages secured by units in co-op projects.

Appraisal Requirements for Co-op Share Loans

The appraisal requirements for co-op share loans are as follows:

- Appraisers must develop an opinion of the market value of the co-op interest when evaluating co-op units. To determine the value of the co-op interest, appraisers must consider and report, among other things, the following information:
  - the number of shares attributable to the unit;
  - the number of shares issued and outstanding for the co-op corporation;

- the name of the lienholder, the lien position, and the amount and repayment terms of all project blanket financing;
- the *pro rata* share of the blanket mortgage payments that are attributable to the unit, as determined by dividing the number of shares attributable to the unit by the total number of project shares;
- the *pro rata* share of each lien that is attributable to the unit;
- any tax abatements or exemptions that are attributable to the unit;
- the remaining term for any tax abatements or exemptions and provisions for escalation of real estate taxes, which is the dollar amount by which the taxes will increase and the year in which the increase will occur; and
- any monthly maintenance fees, including:
  - utility charges, if they are part of these fees;
  - monthly special assessments;
  - ground rent;
  - other fees for the use of the facilities that are attributable to the unit; and
  - the fee type, amount, and term (if applicable) of those other fees.

This information can be developed through *Request for Cooperative Project Information* (*Form 1074*), if the management agent, co-op board, or project sponsor/developer uses the form to respond to lender or appraiser inquiries for project information. When Form 1074 is used, appraisers may either transcribe the appropriate information to the applicable appraisal report or attach the form to the report as an addendum.

- Appraisers must use reliable sources to obtain data on the co-op project, the individual subject unit, and the comparable properties, and indicate the name of each source on the appraisal report or in an addendum to the appraisal report.
- Appraisers must address any factors that could result in an increase to the monthly debt service for the subject unit.
- Appraisers must indicate in the Sales Comparison Approach adjustment grid the dollar amount of the monthly assessments for each of the comparable sales.
- Appraisers must report the value of the co-op interest, excluding its *pro rata* share of the blanket mortgage(s). This value reflects the market value for the co-op interest of the unit. For example, when the indicated value of the unit encumbered by the blanket mortgage(s) is $100,000, and it's *pro rata* share of the blanket mortgage(s) is $25,000, the value estimate that the appraiser must report for the co-op interest of the unit is $75,000.
- Appraisers must include a certification in the appraisal report that the *pro rata* share of the blanket mortgage(s) on the real estate has not been included in the opinion of the market value of the co-op interest.

Comparable Selection Requirements for Co-op Share Loans

The comparable selection requirements for co-op share loans are as follows:

- Appraisers must comment on the acceptance of housing co-ops in the market area. The degree of acceptance is generally reflected in the availability of similar comparable sales data for co-op units. If there is limited market acceptance of the co-op form of ownership or if co-op forms of ownership are relatively new in the market area, appraisers must address any effect that has on the value and marketability of the unit that is being appraised. The appraiser must compare the subject unit to the general market area as well as to other units in the subject co-op project. This comparison demonstrates market acceptance of co-op units in the area.

- Comparable sales must be from similar types of projects that have similar common amenities and recreational facilities including, but not limited to, townhouses and mid-rise and high-rise buildings.
- When available, appraisers must use sales from co-op units as comparables. However, appraisers may use condo units as comparable sales if co-op units are not available, as long as the appraiser explains why those types of comparables were used and adjusts the condo comparables to reflect the reaction of the market to the co-op unit when there is a preference for condo ownership in the subject market area.

See B4-1.3-08, Comparable Sales (10/02/2018), for general requirements regarding comparable selection.

Comparable Selection Requirements for Co-op Share Loans in Established Projects

Comparable sales from within the same project as the subject property should be used if the project has resale activity. Sales activity from within the project should be the best indicator of value for properties in that project.

> **Note**: Use of comparable sales located outside of the established subject neighborhood must be explained in the appraisal analysis.

When the subject property is a unit in an established co-op project that has sales activity, appraisers should use the following as comparables:

- two closed or settled sales from within the subject project, if available; and
- one closed or settled sale from a competing project.

See B4-1.3-08, Comparable Sales (10/02/2018), for general requirements regarding comparable selection.

Comparable Selection Requirements for Co-op Share Loans in New (or Recently Converted) Projects

If the subject property is a unit in a new or recently converted co-op project, appraisers should select as comparables

- one closed or settled sale from the subject project, if one is available; and
- two closed or settled sales from outside of the project.

If closed or settled sales are not available in the subject project, appraisers must use sales from competing projects.

See B4-1.3-08, Comparable Sales (10/02/2018), for general requirements regarding comparable selection.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.4-05, Leasehold Interests Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for properties subject to leasehold interests, including:

- Overview
- Appraisal Requirements for Leasehold Interests
- Comparable Selection Requirements for Leasehold Interests

Overview

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met. When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. For more information on appraising this type of leasehold, see B4-1.4-06, Community Land Trust Appraisal Requirements (04/15/2014).

> **Note**: Manufactured housing located on leasehold interest properties is ineligible for delivery to Fannie Mae.

Appraisal Requirements for Leasehold Interests

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

Comparable Selection Requirements for Leasehold Interests

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised. See B4-1.3-08, Comparable Sales (10/02/2018), for general requirements regarding comparable selection.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.4-06, Community Land Trust Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for properties subject to a community land trust, including:

- Appraiser Qualifications for Appraising Properties Located in a Community Land Trust
- Appraisal Requirements for Community Land Trust Appraisals
- Comparable Selection Requirements for Determining Fee Simple Value
- Determining the Capitalization Rate
- Determining the Leasehold Value
- Addendum to the Appraisal Report

Appraiser Qualifications for Appraising Properties Located in a Community Land Trust

The lender must ensure that the appraiser is knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements including the *Appraiser Independence Requirements.*

Appraisal Requirements for Community Land Trust Appraisals

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property. Fannie Mae has developed the *Community Land Trust Ground Lease Rider* (*Form 2100)* that the lender and the borrower must execute to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure. (For additional information, see B5-5.1-04, Community Land Trusts (06/05/2018), for legal considerations.)
- The appraiser must use a three-step process to develop an opinion of value.

Step	The appraiser must determine
1	the fee simple value of the property by using the sales comparison analysis approach to value,
2	the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
3	the leasehold value by reducing the fee simple value by the lease fee value. (For detailed information related to this process, see below.)

Note: When this appraisal technique is used, there is no need to document the actual land value of the security property.

- On the actual appraisal report form, the appraiser must
  - indicate "leasehold" as the property rights appraised,
  - provide the applicable ground rent paid to the community land trust,
  - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,

- report the "leasehold value" as the indicated value conclusion, and
- check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

Comparable Selection Requirements for Determining Fee Simple Value

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as he or she makes appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which Fannie Mae requires the appraisal of the subject property to be based. See B4-1.3-08, Comparable Sales (10/02/2018), for general requirements regarding comparable selection.

Determining the Capitalization Rate

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a "riskless" (safe) rate.

Determining the Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust's ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at his or her opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust's ground lease is $300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is $100,000:

- $300 annual rent/5.75% capitalization rate = $5,217.39 (rounded to $5,200)
- $100,000 fee simple value – $5,200 leased fee value = $94,800 (leasehold value)

Addendum to the Appraisal Report

Because Fannie Mae's appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered. The addendum must also include the following statement:

"This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider."

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014
Announcement SEL-2012–06	June 26, 2012

B4-1.4-07, Mixed-Use Property Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for mixed-use properties, including:

- Overview
- Appraisal Requirements for Mixed-Use Properties

Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties that have a business use in addition to their residential use provided that special eligibility criteria are met. These business uses can include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, or doctor's offices. For eligibility criteria, see B2-3-04, Special Property Eligibility Considerations (09/02/2020).

Appraisal Requirements for Mixed-Use Properties

The appraisal requirements for mixed-use properties must

- provide a detailed description of the mixed-use characteristics of the subject property;
- indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- report any adverse impact on marketability and market resistance to the commercial use of the property; and
- report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.4-08, Environmental Hazards Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for properties affected by environmental hazards, including:

- Overview
- Appraisal Requirements
- Lender Requirements

Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties affected by environmental hazards if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazard.

In rare situations, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the hazard. In such cases, the mortgage will not be eligible for delivery to Fannie Mae.

Appraisal Requirements

When the appraiser has knowledge of any hazardous condition, whether it exists in or on the subject property or on any site within the vicinity of the property, including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, or radon gas, the appraiser must

- note the hazardous condition in the appraisal report;
- comment on any influence the hazard has on the property's value and marketability, if it is measurable through an analysis of comparable market data as of the effective date of the appraisal, or indicate that the comparable market data reveals no buyer resistance to the hazard; and
- make appropriate adjustments in the overall analysis of the property's value.

Fannie Mae expects the appraiser to consider and use comparable market data from the same affected area because the sales prices of settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect on value and marketability of the subject property.

> **Note**: Fannie Mae does not consider the appraiser to be an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. The appraiser, however, has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing an appraisal.

Lender Requirements

Fannie Mae requires the lender to disclose any information regarding environmental hazards to the appraiser and note the individual mortgage file accordingly if the real estate broker, the property seller, the property purchaser, or any other party to the mortgage transaction informs the lender that an environmental hazard exists in or on the property, or in the vicinity of the property. Fannie Mae also requires the lender to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.

The lender must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage. For example, because Fannie Mae requires the appraiser to comment on the effect of a hazard on the value and marketability of the subject property, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. When the lender has reason to believe that private well water that is on or available to a property might be contaminated as a result of the proximity of the well to hazardous waste sites, the lender is exercising sound judgment if it obtains a “well certification” to determine whether the water meets community standards.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2014–03	April 15, 2014

B4-1.4-09, Special Assessment or Community Facilities Districts Appraisal Requirements (04/15/2014)

Introduction

This topic contains information on special appraisal considerations for properties in special assessment or community facilities districts, including:

- Overview
- Lender Responsibilities Related to Special Assessment or Community Facilities Districts
- Special Assessment Districts
- Appraisal Requirements for Properties Located in Special Assessment Districts
- Community Facilities Districts
- Appraisal Requirements for Properties Located in Community Facilities Districts

Overview

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. In some instances, this involves the creation of local districts called special assessment districts or community facilities districts that have the authority to assess homeowners for the cost of developing utility services and various infrastructure facilities, including, but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

Lender Responsibilities Related to Special Assessment or Community Facilities Districts

Fannie Mae expects the lender to know if a property is located in one of these districts and to be aware of the effect that assessments levied by the district could have on property values and the marketability of the subject property. The lender's appraiser, therefore, must give special consideration to the valuation of properties located in these districts.

Special Assessment Districts

Special assessment districts, also called special tax districts or municipal utility districts, provide a specific service to homeowners living in a designated area. They are most often established to provide water or other utilities in areas that are not served by existing city or municipal utility services. The need for these districts arises when an existing utility service does not have sufficient capacity, or may not find it economically feasible to provide services for newly created subdivisions that are located beyond its current operating area. State law governing the establishment of special assessment districts varies greatly, as does the financial strength of the individual districts. These districts are granted the authority to assess owners of properties within their boundaries for funds that will be used to cover their operating costs and debt service.

Special assessment districts that are established to serve newly developing subdivisions with utilities often base their financial plans and the amount of the assessment to be charged to each property owner on the expected number of properties in the area to be served. The district then depends on the continuation of development to maintain its budget expectations. If, for any reason, development stops short of the degree of development that the district anticipated in preparing its budget, the district can become financially distressed and may need to impose an additional assessment on the existing homeowners.

Appraisal Requirements for Properties Located in Special Assessment Districts

The appraisal requirements for properties located in special assessment districts must

- report any special assessments that affect the property, and
- note in the appraisal report if the special assessment district is experiencing financial difficulty and that the difficulty has an effect on the value or marketability of the subject property.

To ensure that the reaction of the market to the potential liabilities that may arise within a financially troubled special assessment district is reflected in his or her analysis, the appraiser must consider current and expired listings or properties for sale within the district and any pending contract sales and recent closed sales within the district.

There may be some instances in which the financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there is no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value. When this is the case, a mortgage secured by a property in that district will not be eligible for delivery to Fannie Mae until such time that an active market develops that will enable the appraiser to demonstrate the value and marketability of the subject property.

Community Facilities Districts

Some jurisdictions have passed legislation that creates community facilities districts and permits them to levy a special tax to fund the capital costs of a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Proceeds from the special tax are used to support the sale of tax-exempt bonds for the various capital improvements that are allowed under the legislation, including but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

The assessment that will be used to repay the tax-exempt bonds becomes an ongoing responsibility of the property owner, similar to state and local property taxes. The assessment lien and the obligation to pay the assessment passes with the title to the property when ownership of the property is transferred.

Such legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, a lender originating mortgages in community facilities districts should disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.

Appraisal Requirements for Properties Located in Community Facilities Districts

Appraisers must be aware of whether the subject property and the comparables are located within or affected by a community facilities district because properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different assessment or no assessment at all. Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales in his or her analysis, and should note the effect of the assessment in the appraisal report.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Dates
Announcement SEL-2014–03	April 15, 2014

B4-1.4-10, Appraisal Waivers (06/03/2020)

Introduction

This topic contains information on appraisal waivers, including:

Overview

For certain loan casefiles, DU offers an appraisal waiver – an option to waive the appraisal requirement. For loan casefiles that are not eligible for an appraisal waiver, DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised.

Prior Appraisal Requirements

In order for an appraisal waiver to be considered, a prior appraisal must be found for the subject property in Fannie Mae's Collateral Underwriter (CU) data. DU will compare the address for the subject property to the property addresses found in CU. DU will use the information from the prior appraisal to determine if the loan casefile is eligible for the appraisal waiver. In some cases, the prior appraisal may not be acceptable. For example, if a CU "Overvaluation Flag" was issued on the prior appraisal, or the appraisal could not be scored, that prior appraisal will not be used and an appraisal waiver will not be offered on the new loan casefile.

Eligible Transactions

The appraisal waiver offer will be considered for the following transactions:

- one-unit properties, including condos;
- principal residence and second home transactions;
- investment property refinance transactions;
- certain purchase, limited cash-out, and cash-out refinance transactions; and
- DU loan casefiles that receive an Approve/Eligible recommendation.

Ineligible Transactions

The following transactions are not eligible for an appraisal waiver:

- construction and construction-to-permanent loans;

- two- to four-unit properties;
- HomeStyle Renovation and HomeStyle Energy loans;
- leasehold properties;
- community land trusts or other properties with resale restrictions, which include loan casefiles using the Affordable LTV feature;
- co-op units and manufactured homes (including MH Advantage properties);
- DU loan casefiles that receive an Ineligible recommendation;
- transactions using gifts of equity;
- transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more; and
- Texas Section 50(a)(6) loans.

  Note: DU may offer an appraisal waiver on a recently constructed property (i.e., new construction) when there is an existing "as is" prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different lender or borrower, but that loan did not close. The lender may execute the appraisal waiver offer when the loan meets all other eligibility criteria for the transaction.

Furthermore, the lender may not exercise an appraisal waiver offer and must order an appraisal if one or more of the following applies:

- DU was unable to identify ineligible criteria in the list above (for example, Texas Section 50(a)(6) loans);
- the lender is required by law to obtain an appraisal (see A3-2-01, Compliance With Laws (10/02/2019));
- the lender is using rental income from the subject property to qualify the borrower; or
- the lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events.

  Note: The lender may not exercise an appraisal waiver offer if an appraisal is obtained for the transaction.

See B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan (08/07/2018) for additional information about high LTV refinance appraisal waivers.

Representations and Warranties

When a loan casefile is eligible for an appraisal waiver and the waiver is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. See A2-2-06, Representations and Warranties on Property Value (12/04/2018) for more information.

Rural High-Needs Appraisal Waiver

In selected rural high-needs areas, Fannie Mae may offer appraisal waivers through DU for certain transactions. This appraisal waiver may be combined with other loan products, such as HomeReady.

The rural high-needs appraisal waiver offer will be considered for the following transactions only:

- loan casefiles that receive an Approve/Eligible recommendation;
- purchase transactions;
- one-unit principal residence properties (excluding manufactured homes);
- borrowers with income at or below 100% of the area median income; and
- LTV ratios up to 97% and CLTV ratios up to 105% with a Community Seconds.

The following are ineligible for the rural high-needs appraisal waiver:

- cash-out or limited cash-out refinances;
- second homes and investment properties; and
- all other transactions that are ineligible for an appraisal waiver as listed above.

The following table provides the requirements related to the home inspection. These requirements must be met for the lender to exercise the rural high-needs appraisal waiver.

✓	**The lender must**
	obtain a home inspection to determine the property condition. The inspection report must be retained in the loan file and made available to Fannie Mae upon request.
	review the inspection report to verify the property condition. The content of the inspection report must be sufficient for the lender to determine whether the property is safe, sound, and structurally secure. Any issues that compromise safety, soundness, or structural integrity must be repaired before loan delivery.
	obtain an affidavit signed by the borrower(s) confirming that they received a copy of the property inspection report, read the report, and were notified of any lender-required repairs.
	confirm that the purchase contract contains an inspection contingency that offers the borrower(s) enough time to cancel the contract without penalty if they so choose, should the inspection reveal an issue with the property.
	confirm that the inspector has liability insurance.
	use a professional inspector that meets the state license and education requirements for those states that regulate inspectors. Note: In states that do not have inspector licenses, inspectors that are professionally accredited members in good standing of a nationally recognized property inspection organization must be used. The national organization must require education, testing, and adherence to a code of ethics and to standards of practice.
	represent and warrant that the property is safe, sound, and structurally secure and that the property is not in C6 condition. See A2-2-06, Representations and Warranties on Property Value (12/04/2018) and B4-1.3-06, Property Condition and Quality of Construction of the Improvements (04/15/2014) for additional information.

Exercising an Appraisal Waiver

A lender may only exercise an appraisal waiver if

- the final submission of the loan casefile to DU resulted in an appraisal waiver offer,
- an appraisal is not obtained for the transaction, and
- the appraisal waiver offer is not more than four months old on the date of the note and the mortgage.

Lenders that elect to exercise the appraisal waiver must include SFC 801 at delivery. Lenders may not adversely select against Fannie Mae in determining which appraisal waiver offers to accept. Fannie Mae may monitor the lender's exercise of appraisal waiver offers and delivery of loans to Fannie Mae, and may take appropriate measures if adverse selection is identified.

Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
Announcement SEL-2020-03	June 03, 2020
Announcement SEL-2019-07	August 07, 2019
Announcement SEL-2018-09	December 04, 2018
Announcement SEL-2018-07	September 04, 2018
Announcement SEL-2018-06	August 07, 2018
Announcement SEL-2018-05	June 05, 2018
Announcement SEL-2018-04	May 01, 2018
Announcement SEL-2018-02	February 27, 2018
Announcement SEL-2017-08	September 26, 2017
Announcement SEL-2017–03	March 28, 2017
Announcement SEL-2016–09	December 6, 2016
Announcement SEL-2016–08	October 24, 2016