

Appraisal and Property Related Frequently Asked Questions (FAQs)

Updated May 2015

This FAQ document provides responses to common questions related to Fannie Mae's property eligibility and appraisal policies. Following the FAQs, the Attachment on page 10 provides Guidelines for Using Market Conditions Addendum to the Appraisal Report (Form 1004MC).

Resources

For additional information about Fannie Mae's appraisal policies, refer to the [Selling Guide](#). Other resources are available on the [Appraisers page](#) on Fannie Mae's website, and include tutorials, access to forms, FAQs on the Uniform Appraisal Dataset (UAD), Appraiser Independence Requirements (AIR), and more.

FAQs

Property Eligibility

Q1. In the list of ineligible properties, boarding houses are identified as an ineligible property type. Is a group home considered to be a boarding house and therefore an ineligible property type?

No. Group homes are not considered to be boarding houses. Group homes are an eligible property type according to the requirements of the *Selling Guide*.

Q2. Why are boarding houses and bed and breakfast properties considered to be an ineligible property type?

Fannie Mae purchases and securitizes mortgage loans secured only by properties that are primarily residential in nature. Boarding houses and bed and breakfast properties are not primarily residential in nature and therefore are not eligible.

Q3. In originating a loan with a property located on a leasehold estate, does the lease need to be submitted to Fannie Mae for review and approval?

No. Lender must review the lease to ensure that it complies with the lease requirements as described in topic B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates in the *Selling Guide*.

Q4. An exception to the Multiple Parcels policy is allowed if a non-adjoined parcel, divided from the main parcel by a road, is a non-buildable lot. In this scenario, where would a lender obtain evidence that the lot is non-buildable?

The documentation that indicates a lot is non-buildable must be obtained from the local municipality or jurisdiction in which the property is located and must be included in the loan file.

Appraiser Selection and Management

Q5. If a lender utilizes an appraisal management company (AMC) for the selection of an appraiser, is the lender still responsible for ensuring that the appraiser holds an active state license or state certification as of the effective date of the appraisal?

Yes. The lender must ensure that the state license or state certification is active as of the effective date of the appraisal.

Q6. Where can a lender obtain information on the license or certification status of an appraiser?

This information may be obtained from the Appraisal Subcommittee website at asc.gov, or from third-party vendors.

Q7. Why does Fannie Mae require the lender to provide the sales contract to the appraiser?

Fannie Mae's policy is intended to help ensure that the appraiser is aware of all relevant aspects of the transaction. The sales contract provides important sales and financing data, including whether there are any concessions as part of the transaction. If the contract is amended, the lender must provide the updated contract to the appraiser to ensure that the appraiser has been given the opportunity to consider any changes and their effect on value. If the appraiser determines that there is no impact to value, then no additional commentary is required from the appraiser.

Appraisal Submission and Forms

Q8. Are all appraisals required to be completed on a UAD compliant form?

No. Fannie Mae requires the following appraisal report forms to be completed utilizing Appendix D of the UAD Specification when reporting the results of an appraisal for a conventional mortgage loan:

- Uniform Residential Appraisal Report (Form 1004)
- Individual Condominium Unit Appraisal Report (Form 1073)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Form 1075)*
- Exterior-Only Inspection Residential Appraisal Report (Form 2055)*

*These forms currently are not offered in Desktop Underwriter® (DU®) as fieldwork options.

Q9. If revisions are made to an appraisal report after it was submitted through the Uniform Collateral Data Portal® (UCDP®), does Fannie Mae require the revised appraisal to also be submitted through UCDP?

Yes. Fannie Mae requires that the final version of the appraisal report that is utilized in making the underwriting decision be submitted through the UCDP and receive a "Successful" status from the UCDP prior to the delivery of the loan.

Q10. Are there any exceptions to the requirement that the appraised value submitted in UCDP match the appraised value as reported at delivery?

Yes. An exception is allowed if the appraisal used to underwrite the loan is a desk or field review, because those types of reports cannot be uploaded to the UCDP. In those instances,

the appraised value reported at delivery will reflect the value stated in the desk or field review. However, the original appraisal that was the subject of review must have been submitted to UCDP.

Appraisal Policy

Q11. Is it acceptable for an appraiser to obtain and provide the required interior photographs at the time of the inspection for the *Appraisal Update and/or Completion Report* (Form 1004D)?

Yes. If the property being appraised is proposed or at a stage of construction where the required photographs cannot be obtained, they may be obtained at the time of the inspection for the Certification of Completion and provided with the Form 1004D.

Q12. If an appraiser provides an Appraisal Update and reports an increased value, can the lender utilize the value increase to underwrite the loan in process?

No. The purpose of the Appraisal Update portion of the Form 1004D is to indicate whether the value has remained the same or decreased. If the value has increased, the lender would need to obtain a new appraisal that reflects the increase in value in order to utilize the higher appraised value in underwriting the loan.

Q13. Can a previous appraisal be used for a subsequent refinance transaction when one of the borrowers is buying out the other borrower?

Yes. In this situation the continuity of obligation, as defined in *Selling Guide* topic [B2-1.2-04: Continuity of Obligation](#), is met and the appraisal may be utilized for the subsequent transaction.

Q14. Will Fannie Mae purchase loans with outstanding repair or completion escrows on an existing property?

Yes, as long as the items for which the escrows were established are reflected in the appraiser's opinion of value and the lender can ensure that they do not affect the safety, soundness, or structural integrity of the property.

Q15. Will Fannie Mae purchase loans secured by properties in areas where the appraiser indicates there is an oversupply of houses, prices are declining, and/or the average marketing time is greater than six months?

Yes, Fannie Mae purchases mortgages secured by properties in all markets.

Q16. What type of properties are to be analyzed for the data reported in the One-Unit Housing Trends portion of the Neighborhood section of the appraisal report form?

The data regarding trends to be reported in the One-Unit Housing Trends section must be reflective of those properties deemed to be competitive to the property being appraised. Additional commentary should be provided on the other segment(s) of the neighborhood when segmentation is present to aid in understanding the overall neighborhood dynamics.

Q17. Are the trends that are reported on the *Market Conditions Addendum to the Appraisal Report (Form 1004MC)* the same trends that are to be reported in the One-Unit Housing Trends section of the appraisal report (Form 1004)?

Yes. The conclusions regarding trends that are obtained from the Form 1004MC must be the same trends reported in the Neighborhood trends section of the Form 1004. The information reported on both forms must be consistent to provide the lender with a clear and accurate understanding of the market trends and conditions present in the subject neighborhood, based on properties that are considered competitive with the subject being appraised.

Q18. Are properties that are identified as having an over-improvement eligible for sale to Fannie Mae?

Yes. Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range. Lenders must review appraisals on properties with over-improvements that might not be acceptable to a typical purchaser to ensure that the appraiser has adequately commented on the over-improvement and that only their contributory value is reflected in the appraisal analysis.

Q19. Will Fannie Mae accept a loan for which the lender has requested the appraiser to appraise only a portion of a larger piece of property?

No. Fannie Mae expects that the appraisal will reflect the value attributable to the entire property. It is important for the underwriter and Fannie Mae to fully understand the value of the entire property that is serving as security for the loan.

Q20. If a property constitutes a legal, non-conforming use of the land and is a one- to four-unit property or a unit in a PUD, must a lender obtain documentation that indicates the improvements can be rebuilt to current density in the event of partial or full destruction?

No. The requirement for the copy of the zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density only applies when the property being appraised is a condo unit or a co-op share loan located in a project.

Q21. Will Fannie Mae lend on a property where the utilities were not turned on at the time of the appraisal inspection?

Yes. Fannie Mae does not require that the utilities that serve the property be turned on at the time of the inspection. Fannie Mae requires that the utilities meet community standards.

Q22. Can a loan be delivered to Fannie Mae if the property is located on a community-owned or privately maintained street and there is no agreement or covenant for maintenance or statutory provisions that define these responsibilities?

Yes. If there are no statutory requirements for maintenance and either

(a) there is no agreement or covenant for maintenance, or

(b) an existing agreement or covenant does not contain provisions that describe the responsibility for payment of repairs, default remedies, the effective term of the agreement; and is not recorded in the land records of the appropriate jurisdiction,

lenders may still deliver loans on these properties. However, should Fannie Mae experience any losses or expenses as a result of the physical condition of the street or in order to establish

and/or retain access, the lender is responsible for the reimbursement of these losses or expenses.

Q23. Are loans secured by unique or non-traditional homes eligible for delivery to Fannie Mae?

Yes. Fannie Mae does purchase loans secured by unique or non-traditional housing types, such as, but not limited to, log homes, earth berm homes, and geodesic domes, which can be located in all areas, including rural locations. Loans on these types of properties are eligible for delivery to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value.

Q24. Is there a required number of comparables that must be of similar design or appeal as the unique or non-traditional home that is being appraised?

No. There is no requirement that one or more of the comparables be of the same design and appeal as the property that is being appraised. However, appraisal accuracy is enhanced by the use of comparables that are the most similar in design and appeal.

Q25. Is there a required number of comparables that the appraiser must provide when appraising a one-unit property with an accessory unit?

Yes. If the accessory unit is legal, the appraiser is required to provide at least one comparable property with the same use to demonstrate the improvements are typical for the local market. If the accessory unit is illegal, the appraiser must provide three comparables with the same non-compliant zoning use to demonstrate the improvements are typical for the local market.

Q26. If the subject property features an unpermitted addition, can the square footage of the unpermitted addition be included in the total gross living area reported on the appraisal report?

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

Q27. What is the appraiser's responsibility for reporting property condition and quality?

The appraiser is responsible for considering all factors that have an impact on value in the development of his/her opinion of market value for the subject property. Fannie Mae requires the appraiser to express an opinion about the condition and quality of the property on its appraisal report forms. The appraiser must report the condition and quality of the property in factual, specific terms and, when completing an appraisal form that must be UAD-compliant, the condition and quality of the property must be reported utilizing the UAD ratings as described in *Selling Guide* topic [B4-1.3-06, Property Condition and Quality of Construction of the Improvements](#). An accurate description of the physical condition and quality of the subject property is a critical element in arriving at a supportable opinion of market value, as well as in the prudent underwriting of a mortgage loan.

Q28. Should the ratings for Condition and Quality be selected on a relative basis or an absolute basis?

The Condition and Quality ratings should not be selected on a relative basis, meaning the ratings are not selected on how the property relates or compares to other properties in the neighborhood. The Condition and Quality ratings must be based on a holistic, or absolute, view

of the property and any improvements. The appraiser must consider all the improvements to determine an overall Condition and Quality rating, selecting the rating that best reflects the property as a whole and in its entirety, rated on its own merits. This requirement also applies to the comparable sales.

Q29. Are there situations when a selected Condition or Quality rating may change when the same transaction is being used in a subsequent report?

Yes. Ratings should remain the same when it reflects the same transaction being reported in subsequent reports; however, there may be instances in which additional information regarding the property may become evident at a later time and the appraiser may need to adjust the rating that is applied in a subsequent report. What is not acceptable is for the ratings to be changed merely to meet the needs of the assignment.

Q30. What is expected with regard to the appraiser's inspection of a property?

Fannie Mae requires that the appraiser conduct a complete visual inspection of the accessible areas of the interior and exterior of the property. The appraiser is responsible for noting in his/her report any adverse conditions (such as, but not limited to, needed repairs; deterioration; or the presence of hazardous wastes, toxic substances, or adverse environmental conditions) that were apparent during the inspection of the property or that he/she became aware of during the research involved in performing the appraisal.

The appraiser is expected to consider and describe the overall condition and quality of the property and identify items that require immediate repair as well as items where maintenance may have been deferred and which may not require immediate repair. On the other hand, an appraiser is not responsible for hidden or unapparent conditions.

In addition, Fannie Mae does not consider the appraiser to be an expert in all fields, such as environmental hazards. In situations where an adverse property condition may be observed by the appraiser but the appraiser is not qualified to decide whether that condition requires immediate repair (such as the presence of mold, an active roof leak, settlement in the foundation, etc.), the property must be appraised subject to an inspection by a qualified professional. In such cases, the lender may need to ask the appraiser to update his or her appraisal based on the results of the inspection, in which case the appraiser would incorporate the results of the inspection and measure the impact, if any, on his or her final opinion of market value.

Q31. In what situations should a property be appraised "as-is" versus "as-repaired"?

Fannie Mae permits an appraisal to be based on the "as-is" condition of the property as long as any minor conditions, such as deferred maintenance, 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 items include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass. Minor conditions and deferred maintenance typically are due to normal wear and tear from the aging process and the occupancy of the property. Such conditions generally do not rise to the level of a "required repair." Nevertheless, they must be reported.

The appraiser must identify physical deficiencies that could affect the safety, soundness, or structural integrity of the property as part of his or her description of the physical condition of the property. These may include cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, inadequate electrical service or plumbing fixtures, etc. 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.

Q32. Is it acceptable for an appraiser to use sales that are not truly comparable to the subject?

Yes. If there is a shortage of truly comparable sales in the area where the subject property is located, either due to 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 to the subject may simply be the best available and the most appropriate for the appraiser's analysis. The use of these sales is acceptable provided the appraiser adequately documents the analysis and explains why these sales were used. This may often be the case in rural locations where the best and most appropriate sales may not be truly comparable to the subject being appraised.

Q33. Can the appraiser use comparable sales that closed over twelve months ago?

Yes. The best and most appropriate sales may not always be the most recent. A sale more than 12 months old may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraiser reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if they are 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 three truly comparable sales that sold within the last twelve months. In this case, the appraiser may use older comparable sales as long as he or she explains why they are being used.

Q34. Are there any limitations to the distance that a comparable sale may be located from the subject?

No. 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 the comparable sales that are the best indicators of value, and the appraisal must include an explanation of why the particular comparables were selected. This may be especially important for appraising rural housing since rural properties often have large lot sizes, and rural locations can be relatively undeveloped.

Q35. Updated (May 2015) Are there limitations or guidelines regarding adjustments to comparables?

No. There are no specific limitations or guidelines associated with net and gross adjustments for comparables. The number and/or amount of the adjustments must not be the sole determinant in the acceptability of the comparable. While in theory it remains true that the best and most appropriate comparable would require no adjustments, it would be rare to find two properties and their transaction details that are identical.

Fannie Mae does require that adjustments to the comparables be based on the market reaction to the differences noted between the subject and the comparable. For example, it is not acceptable to use a rule-of-thumb \$20 per square foot adjustment for the gross living area when the market analysis indicates that an adjustment of \$100 per square foot should be used.

The expectation is that appraisers analyze the market for competitive properties and provide adjustments that reflect the market reaction without any consideration to limits regarding the size of the adjustment. This may be especially important in small towns and rural areas where

there may be a relatively low sales volume and a wide variety of property types, and large market-based adjustments may be required.

Q36. How should the appraiser determine appropriate adjustments for sales concessions on the comparables?

The appraiser must consider the impact a sales concession had on the transaction. The adjustments must reflect the difference between what the comparables actually sold for with the sales concessions and what they would have sold for without the concessions, so that the dollar amount of the adjustments approximates the reaction of the market to the concessions.

Q37. What types of comments must the appraiser make when explaining the adjustments that were made in the Sales Comparison Approach?

The appraiser must provide appropriate comments that reflect the logic and the 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.

Market Conditions Addendum to the Appraisal Report (Form 1004MC)

Q38. Is the *Market Conditions Addendum to the Appraisal Report (Form 1004MC)* required for both manually underwritten mortgage loans and those underwritten with Desktop Underwriter® (DU®)?

Yes, the Market Conditions Addendum (Form 1004MC) must be included with the appraisal report for all appraisals on one- to four-unit properties. The addendum must be provided with Fannie Mae Forms 1004, 1004C, 1025, 1073, 1075, 2055, 2090, and 2095.

Note: Appraisal Forms 1075, 2055, and 2095 are not currently fieldwork options offered by DU.

Q39. What is the purpose of the *Market Conditions Addendum*?

Due to the complexity of the real estate market, the *Market Conditions Addendum* is intended to capture additional information to enhance the transparency of the market trends and conditions analyzed by the appraiser.

Q40. What if requested data is not available to the appraiser? For example, what if comparable active listings from a previous time period are not available?

If the appraiser is unable to complete a portion of the addendum because data, such as historical listing data, is unavailable or unreliable, the appraiser must provide an explanation of his or her efforts to obtain such data and why it is not available. Simply stating “not applicable” or “N/A” without an explanation is not an acceptable response.

Some local MLSs may be a source of appropriate data. Appraisers should be aware that software programs currently being marketed may pull data from the MLS but still require additional technical steps to make the data usable for purposes of the market analysis required by the addendum. While these types of programs may be helpful in gathering the data, they are not a substitute for the appraiser’s analysis.

The requirements of the addendum are not intended to be so onerous that they hinder the appraiser in completing the appraisal. Fannie Mae does not expect appraisers to have advanced technical skills to obtain data in support of these requirements; however, appraisers

must make a reasonable and conscientious effort to obtain data that supports an accurate and complete analysis.

Q41. What should the appraiser do if there is not enough data to provide a meaningful analysis?

If there is not sufficient data to provide a meaningful analysis for the defined neighborhood, the appraiser must complete the form based on the information that is available and provide an explanation. The lack of data may be an indication of the market conditions. If additional analysis of nearby areas that include competitive properties is performed, it must be discussed in the summary/conclusions section of the form. In any scenario, the Neighborhood section of the appraisal report must include the appraiser's conclusions regarding the housing trends.

Q42. What if information requested is only available as an "average" instead of the median?

In that situation, the appraiser must indicate in his/her findings that the data is available on an average basis and not as a median.

Q43. What is the absorption rate and how is it helpful in identifying market trends?

The absorption rate is the rate at which properties for sale have been or can be sold (marketed) within a specific area. It is helpful in determining supply and demand trends for a market area.

Q44. How is the absorption rate determined?

The absorption rate is determined by dividing the total number of sales for a given market by the time period being analyzed.

Example:

If there were 60 sales during the 6-month time period being analyzed, the absorption rate would be 10 sales per month (60 sales divided by 6 months).

If there are 240 active listings, there would be a 24 month supply of homes on the market (240 active listings divided by 10 sales per month).

This calculation may support an appraiser's conclusion that there is an oversupply of homes on the market. Anomalies in the data such as seasonal markets, new construction, or other factors must be addressed in the form.

Q45. Is the Median Sale Price as % of List Price determined by dividing the Median Comparable Sale Price by the Median Comparable List Price from the preceding data on the form, or is it based only on comparables for sold properties?

The Median Sale Price as % of List Price is to be determined by analyzing the comparables that have sold and settled during the specific time frame, not by using the data from the lines above this section on the form.

Q46. When the Inventory Analysis is completed, should the data that is entered show a trend?

The data may show a trend/direction or no trend at all. However, it is important to remember that the time periods for the analysis include one six-month period and two three-month periods. The appraiser must properly analyze the first column before determining any trend.

Attachment

Guidelines for Using *Market Conditions Addendum to the Appraisal Report* (Form 1004MC)

Form 1004MC is intended to provide the lender with a clear and accurate understanding of the market trends and conditions in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. The appraiser's conclusions are to be reported in the "Neighborhood" section of the appraisal report.

Fannie Mae recognizes that all of the requested data elements for analysis are not equally available in all markets. In some markets, for example, it may not be possible to retrieve the total number of comparable active listings from earlier periods. If this is the case, the appraiser must explain the attempt to obtain such information.

Also, there may be markets in which the data is available in terms of an "average" as opposed to a "median." In this case, the appraiser needs to note that his or her analysis has been based on an "average" representation of the data. Regardless of whether all requested information is available, the appraiser must provide support for his or her conclusions regarding market trends and conditions.

Inventory Analysis Section

The "Inventory Analysis" section assists the appraiser in analyzing important supply and demand factors in order to reach a conclusion regarding housing trends and market conditions. When completing this section, the appraiser must include the total pool of comparable properties from which a buyer may select a property in order to analyze the sales activity and the local housing supply. One of the tools used to monitor these trends is the absorption rate.

The absorption rate is the rate at which properties for sale have been or can be sold (marketed) within a given area. To determine the absorption rate, the appraiser divides the total number of settled sales by the time frame being analyzed. The months of housing supply is based on the total listings for the applicable period divided by the absorption rate.

EXAMPLE

Step 1: Calculate the absorption rate.

If there were 60 sales during a 6 month period (e.g., "Prior 7–12 Months" column), the absorption rate is 10 sales per month (60 sales/6 months).

Step 2: Calculate the months of housing supply.

If there are 240 active listings, there is a 24-month supply of homes on the market (240 active sales/10 sales per month).

This may support the appraiser's conclusion that there is an over-supply of homes on the market. Anomalies in the data such as seasonal markets, new construction, or other factors must be addressed in the form.

Median Sale and List Price, DOM, List/Sale Ratio Section

The appraiser must analyze additional trends, including the changes in median prices and days on the market (DOM) for both sales and listings, as well as a change in list-to-sales price ratios.

EXAMPLE

If the median comparable sale prices are \$300,000, \$295,000, and \$305,000 for their respective time periods, the overall trend for the prior 12 months is relatively “stable.”

Overall Trend Section

The “Overall Trend” section is designed to reflect potential positive trends, neutral trends, or negative trends in inventory, median sale and list price, days on market, list-to-sale price ratio, and seller concessions.

EXAMPLE

An increase in the absorption rate is generally viewed as a positive trend, whereas a decrease in the absorption rate may be viewed as a negative trend. A decrease in the number of days on the market, either sales or listings, more than likely represents an overall positive trend.

Seller Concessions

Form 1004MC also provides a section for comments on the prevalence of seller concessions and the trend in seller concessions for the past 12 months. The change in seller concessions within the market provides the lender with additional insight into current market conditions. The appraiser should consider and report on seller-paid (or third-party) costs. Examples of these items include, but are not limited to, mortgage payments, points and fees, and in condo or co-op projects, items such as homeowners’ association fees. Seller concessions must be carefully analyzed by the appraiser since excessive concessions often lead to inflated property values.

Foreclosure Sales and Summary/Analysis of Data

The presence and extent of foreclosure/REO sales is worthy of comment when analyzing market data and must be reported on the form. The form also allows for the appraiser to summarize the data and provide other data analysis or additional information, such as analysis of pending sales, which over time can show a market trend.