

## Appraisal and Property Report Policies and Forms Frequently Asked Questions (FAQs)

November 2008

Fannie Mae recognizes the Uniform Standards of Professional Appraisal Practice as the minimum appraisal standards for the appraisal industry, in addition to establishing separate appraisal requirements to supplement the Uniform Standards. This document provides guidelines for using the newly introduced Market Conditions Addendum to the Appraisal Report, as well as FAQs about the Addendum, new policies and clarifications of existing policies, and other general appraisal topics.

### Market Conditions Addendum to the Appraisal Report

The Market Conditions Addendum to the Appraisal Report ([Form 1004MC](#)) will be required with all appraisals of one-to-four unit properties effective April 1, 2009 (see [Announcement 08-30, Appraisal-Related Policy Changes and Clarifications](#).) See Attachment for Guidelines for Using Form 1004MC.

### FAQs

#### *Market Conditions Addendum (Form 1004MC)*

**1. Will the Market Conditions Addendum be required for both manually underwritten mortgage loans and those underwritten with Desktop Underwriter<sup>®</sup> (DU<sup>®</sup>)?**

Yes, the Market Conditions Addendum must be included with the appraisal report for all appraisals on one- to four-unit properties with an effective date on or after April 1, 2009. The addendum must be provided with Fannie Mae Forms 1004, 1004C, 1004D, 2055, 1073, 1075, 2090, 2095, and 1025.

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

Due to the complexity of the current real estate market, Fannie Mae created the Market Conditions Addendum to capture additional information to enhance the transparency of the market trends and conditions conclusions made by the appraiser.

**3. 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 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” is not an acceptable response.

**4. 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.

**5. 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.

**6. 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 divided by 6). If there are 240 active listings there would be a 24 month supply of homes on the market (240 divided by 10).

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.

**7. Is the Market Conditions Addendum required for the DU property inspection report?**

No, the DU property inspection report is not an appraisal, so the addendum is not required to be provided with the report.

***New Policies and Clarifications of Existing Policies (Announcement 08-30)***

**8. 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 loans secured by properties in all markets across the country.

**9. 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 as long as it meets eligibility requirements. It is important for the underwriter and Fannie Mae to fully understand the value of the property that is serving as security interest for the loan.

**10. 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 livability, soundness, or structural integrity of the property.

## **11. Why is Fannie Mae requiring the lender to provide the sales contract to the appraiser?**

Fannie Mae is implementing this policy to help ensure that the appraiser is aware of all relevant aspects of the transaction. The sales contract will provide important sales and financing data, including whether there are any concessions as part of the transaction, so the appraiser can consider the effect on property value. If the sales contract is amended during the sales process, the lender must provide the updated contract to the appraiser.

## **12. 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 the dollar amount of the adjustments will approximate the reaction of the market to the concessions.

### ***General***

## **13. What is the appraiser's responsibility for reporting property condition?**

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 of the property on our appraisal report forms. The appraiser must report the condition of the property in factual, specific terms. We believe that an accurate description of the physical condition 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.

With the introduction of the Market Conditions Addendum, the appraiser must provide information about market conditions in the neighborhood of the subject property to provide additional support for his/her conclusions about the property's value.

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

Fannie Mae's expectation of the appraiser's property inspection for an appraisal based on an interior and exterior inspection is a complete visual inspection of the accessible areas 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; the presence of hazardous wastes, toxic substances, or adverse environmental conditions; etc.) 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 quality and condition of the property and identify items that require immediate repair as well as items where maintenance may have been deferred, which may or 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.

#### **15. 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 livability, 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 soundness, structural integrity, or livability 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. 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, the property must be appraised subject to an inspection by a qualified professional. In such cases, the lender must have the property inspected and any material conditions repaired before it delivers the mortgage loan to Fannie Mae. The appraiser may be asked 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.

#### **16. What is expected with regard to the appraiser’s reporting on the Scope of Work for an appraisal?**

The Scope of Work for an appraisal based on an interior and exterior property inspection is determined by the complexity of the appraisal assignment and the reporting requirements of the appraisal report form, including the stated Definition of Market Value, Statement of Assumptions and Limiting Conditions, and Certifications. The appraiser is required, at a minimum, to:

- perform a complete visual inspection of the interior and exterior areas of the subject property;
- inspect the neighborhood;
- inspect each of the comparable sales, at least from the street;
- research, verify, and analyze data from reliable public and/or private sources; and
- report his or her analysis, opinions, and conclusions in the appraisal report.

The stated Scope of Work on the appraisal report forms reflects the minimum level of research and analysis required. The appraiser can expand the minimum Scope of Work for the appraisal and report on any additional research or analysis that was necessary and performed based on the complexity of the appraisal assignment. The need for an expanded Scope of Work is specific to the particular appraisal assignment and should be the exception, not the norm, for appraisals on typical one-unit properties.

The Fannie Mae *Selling Guide*, Announcements, and forms are available at [www.efanniemae.com](http://www.efanniemae.com).

## ***Attachment***

### **Guidelines for Using Form 1004MC**

The Form 1004MC is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent 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 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 comparable data that reflects 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 (60/6).

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. Furthermore, 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 condominium or cooperative projects, items such as homeowners' association fees and guaranteed rental programs. Seller concessions must be carefully analyzed by the appraiser since excessive concessions often lead to inflated property values.

There are a number of markets across the country where, due to current conditions, there has been an increase in the prevalence of seller concessions being paid. The Fannie Mae *Selling Guide* provides guidance for these circumstances.

### ***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.