

*Announcement 08-30*

*November 14, 2008*

*Amends these Guides: Selling*

## *Appraisal-Related Policy Changes and Clarifications*

### **Introduction**

Due to current conditions in the real estate market, it is paramount that appraisers are provided with sufficient guidance to properly appraise and document the appraisal report. Fannie Mae recognizes the Uniform Standards of Professional Appraisal Practice as the minimum appraisal standards for the appraisal profession. In addition, Fannie Mae has established its own separate appraisal requirements to supplement the Uniform Standards. This Announcement addresses several new or updated appraisal-related requirements and clarifies several other existing policies to help underwriters make sound underwriting decisions when reviewing the appraisal report. The following topics are discussed:

#### **New or Updated Policies**

- Implementation of the Market Conditions Addendum to the Appraisal Report (Form 1004MC)
- Use of supervisory appraisers
- Requirement to provide the sales contract to the appraiser
- Requirement regarding the appraiser's selection of comparable sales

#### **Clarification of Existing Policies**

- Repair escrows for existing construction
- Research and reporting of the current and prior listings of the subject property
- Appraising the entire site of a property
- Time adjustments on the appraisal report
- Verification of a sales transaction
- Neighborhood boundaries and the selection of comparable sales
- Effective age of the subject property
- Utilizing the cost approach to value for insurance purposes

## **Implementation of the Market Conditions Addendum to the Appraisal Report (Form 1004MC)**

### ***Selling Guide, Part XI, Section 403.03: Trend of Property Values, Demand/Supply, and Marketing Time; and Section 203: Appraisal and Property Inspection Report Forms***

Fannie Mae purchases or securitizes mortgages in all markets and under all market conditions. The current appraisal report forms require the appraiser to report on the primary indicators of market condition for properties in the subject neighborhood by noting the trend of property values (increasing, stable, or declining), the supply of properties in the subject neighborhood (shortage, in-balance, or over-supply), and the marketing time for properties (under three months, three to six months, or over six months) as of the effective date of the appraisal. Fannie Mae also expects the appraiser to provide their conclusions for the reasons a market is experiencing declining market values, an over-supply of properties, or marketing times over six months.

To further enhance the transparency of the conclusions made by the appraiser related to market trends and conditions, the Form 1004MC will be required for all mortgage loans delivered to Fannie Mae with appraisals of one- to four-unit properties with an effective date on or after April 1, 2009. A sample of the form is attached to this Announcement. In addition, the form is posted on [eFannieMae.com](http://eFannieMae.com).

### **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 & 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. The following excerpt from the *Selling Guide*, Part XI, Section 406.5 (C) provides guidance for these circumstances:

“The need to make negative dollar adjustments for sales and financing concessions and the amount of the adjustments to the comparable sales are not based on how typical the concessions might be for a segment of the market area—large sales 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. We recognize that the effect of the sales concessions on sales prices can vary with the amount of the concessions and differences in various markets. 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 will approximate the reaction of the market to the concessions.”

For further information regarding seller concessions in the appraisal, refer to the *Selling Guide*, Part XI, Section 205 and Section 406.05(C) (for additional guidance not referenced above).

### **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.

### **Use of Supervisory Appraisers**

#### ***Selling Guide*, Part XI, Section 101.03: Use of Supervisory or Review Appraisers**

Fannie Mae defines 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. Fannie Mae allows an unlicensed or uncertified appraiser who 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. This policy is updated to now require that if a supervisory appraiser signs the

appraisal report as the appraiser, the supervisory appraiser must have performed the inspection of the subject property.

### **Requirement to Provide the Sales Contract to the Appraiser**

#### ***Selling Guide, Part XI, Chapter 2: Appraisal (or Property Inspection) Documentation***

Fannie Mae requires the lender to ensure that it provides the appraiser with all appropriate financing data and sales concessions for the subject property that will be, or have been, granted by anyone associated with the transaction. Typically this information is contained in the sales contract; however, Fannie Mae currently does not require that the lender provide the appraiser with the sales contract. Fannie Mae is adding the requirement that lenders must provide the appraiser with the sales contract and all addenda, therefore ensuring that the appraiser has been given the opportunity to consider the financing and sales concessions in the transaction and their effect on value. If the sales contract is amended during the process, the lender must provide the updated contract to the appraiser.

### **Requirement Regarding the Appraiser's Selection of Comparable Sales**

#### ***Selling Guide, Part XI, Section 406.02: Selection of Comparable Sales***

The *Selling Guide* states that when 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 may need to use as comparable sales properties that are not truly comparable to the subject property or properties that are located in competing neighborhoods.

If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, Fannie Mae is adding a requirement that the appraiser provide an explanation as to why he or she used the specific comparable sales in the appraisal report. This will add transparency to the appraiser's selection of comparable sales and may assist the lender in underwriting the appraisal.

Refer to the "Neighborhood Boundaries and the Selection of Comparable Sales" section of this Announcement for an additional clarification of this section of the *Selling Guide*.

### **Repair Escrows for Existing Construction**

#### ***Selling Guide, Part XI, Section 202: Status of Construction; and Section 405.08: Property Condition***

The following clarifications apply to both of the above referenced sections of the *Selling Guide* as they pertain to postponed improvements. Furthermore, Fannie Mae is explicitly

stating that completion or repair escrows are permitted under certain circumstances for existing properties.

If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, 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. 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 their 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 livability, soundness, or structural integrity of the property. 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. Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property.

When there are incomplete items or conditions that do affect the livability, soundness, or structural integrity, the property must be appraised subject to completion of the specific alterations or repairs. These items include, a partially completed addition or renovation, or physical deficiencies that could affect the 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 it delivers the mortgage to Fannie Mae.

## **Research and Reporting of the Current and Prior Listings of the Subject Property**

### ***Selling Guide, Part XI, Section 401: The Subject Property***

Fannie Mae’s appraisal report forms require the appraiser to research and comment on whether the subject property is currently for sale or if it has been listed for sale within 12 months prior to the effective date of the appraisal. To clarify, the appraiser must report on *each* occurrence or listing and provide the data source(s), offering prices, and date(s). 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.

## **Appraising the Entire Site of a Property**

### ***Selling Guide, Part XI, Section 404: Site Analysis***

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It also must have comparable utilities, street improvements, adequate vehicular access, and other amenities. Fannie Mae is clarifying

that the appraisal must include the actual size of the site and not a hypothetical portion of the site. 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.

### **Effective Age of the Subject Property**

#### ***Selling Guide, Part XI, Section 405.02: Actual and Effective Ages***

The effective age can be a good indication of the condition of the subject property. Fannie Mae is clarifying that when adjustments are made to the appraisal for the effective age, the appraiser must provide an explanation for the adjustments and the condition of the property.

### **Verification of a Sales Transaction**

#### ***Selling Guide, Part XI, Section 406.01: Sources of Comparable Market Data***

It is important for the appraiser to ensure that the data he or she is providing in the appraisal report is accurate. When the appraiser is provided with comparable sales data by a party that has a financial interest in either the sale or financing of the subject property, the above section of the *Selling Guide* requires the appraiser to verify the data with a party that does not have a financial interest in the subject transaction. However, when appraising new construction, the appraiser may need to rely solely on the builder of the property they are appraising to provide comparable sales data, as this data may not yet be available through typical data sources such as 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 HUD-1 Settlement Statement from the builder's file.

### **Neighborhood Boundaries and the Selection of Comparable Sales**

#### ***Selling Guide, Part XI, Section 406.02: Selection of Comparable Sales***

The 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 in the market area). The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the market area, but also to define the area from which to select the market data needed to perform a sales comparison analysis. As a reminder, although it is preferable for the appraiser to provide comparables from the subject's neighborhood, 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.

## **Time Adjustments on the Appraisal Report**

### ***Selling Guide, Part XI, Section 406.05D: Date of sale/time adjustment***

The following is being added to Section 406.05D of the *Selling Guide*:

If in the analysis and completion of the sales comparison approach the appraiser determines that time adjustments are required, the adjustments may be either positive or negative. The adjustments, however, must reflect the difference in market conditions between the date of sale of the comparable and the effective date of appraisal for the subject property.

## **Utilizing the Cost Approach to Value for Insurance Purposes**

### ***Selling Guide, Part V, Section 302: Coverage for Home Mortgages; and Part XI, Section 407, Cost Approach to Value***

If a lender requires the cost approach to be completed in order to obtain a replacement cost estimate for the purpose of determining the level of hazard insurance coverage required for a one-unit property, the lender may rely on the appraiser's estimate of the replacement cost of the improvements. This is reported as the "Total Estimate of Cost New" on the appraisal forms. This estimate does not include any form of depreciation or obsolescence for the property. It is not appropriate for the lender simply to subtract the reported site or land value from the appraised value of the property to make the determination because the result is an estimate of the depreciated value of the improvements, not an estimate of their replacement cost.

## **Effective Date**

The new Form 1004MC is required on all appraisals with an effective date on and after April 1, 2009. All other new and updated policies are effective for all appraisals on or after January 1, 2009.

\*\*\*\*\*

Lenders who have questions about Announcement 08-30 should contact their Customer Account Team for additional information.

Michael A. Quinn  
Senior Vice President  
Single-Family Risk Officer

# Market Conditions Addendum to the Appraisal Report

File No. \_\_\_\_\_

The purpose of this addendum is to provide the lender/client with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. This is a required addendum for all appraisal reports with an effective date on or after April 1, 2009.

Property Address \_\_\_\_\_ City \_\_\_\_\_ State \_\_\_\_\_ Zip Code \_\_\_\_\_

Borrower \_\_\_\_\_

**Instructions:** The appraiser must use the information required on this form as the basis for his/her conclusions, and must provide support for those conclusions, regarding housing trends and overall market conditions as reported in the Neighborhood section of the appraisal report form. The appraiser must fill in all the information to the extent it is available and reliable and must provide analysis as indicated below. If any required data is unavailable or is considered unreliable, the appraiser must provide an explanation. If data sources provide the required information as an average instead of the median, then the appraiser should report the available figure and identify it as an average. Sales and listings must be properties that compete with the subject property, determined by applying the criteria that would be used by a prospective buyer of the subject property. The appraiser must explain any anomalies in the data, such as seasonal markets, new construction, foreclosures, etc.

Inventory Analysis	Prior 7-12 Months	Prior 4-6 Months	Current - 3 Months	Overall Trend		
Total # of Comparable Sales (Settled)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Absorption Rate (Total Sales/Months)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Total # of Comparable Active Listings				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Months of Housing Supply (Total Listings/Ab.Rate)				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing

Median Sale & List Price, DOM, List/Sale Ratio	Prior 7-12 Months	Prior 4-6 Months	Current - 3 Months	Overall Trend		
Median Comparable Sale Price				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Median Comparable Sales Days on Market				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Median Comparable List Price				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Median Comparable Listings Days on Market				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Median List-to-Sale Price Ratio				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing

Seller-(developer, builder, etc.)paid financial assistance prevalent?  Yes  No  Declining  Stable  Increasing

Explain in detail the seller concessions trends for the past 12 months (e.g., seller contributions increased from 3% to 5%, increasing use of buydowns, closing costs, condo fees, options, etc.).

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Are foreclosure sales (REO sales) a factor in the market?  Yes  No If yes, explain (including the trends in listings and sales of foreclosed properties).

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Cite data sources for above information.

\_\_\_\_\_

Summarize the above information as support for your conclusions in the Neighborhood section of the appraisal report form. If you used any additional information, such as an analysis of pending sales and/or expired and withdrawn listings, to formulate your conclusions, provide both an explanation and support for your conclusions.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

**If the subject is a unit in a condominium or cooperative project, complete the following:** Project Name: \_\_\_\_\_

Subject Project Data	Prior 7-12 Months	Prior 4-6 Months	Current - 3 Months	Overall Trend		
Total # of Comparable Sales (Settled)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Absorption Rate (Total Sales/Months)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Total # of Active Comparable Listings				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Months of Unit Supply (Total Listings/Ab. Rate)				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing

Are foreclosure sales (REO sales) a factor in the project?  Yes  No If yes, indicate the number of REO listings and explain the trends in listings and sales of foreclosed properties.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Summarize the above trends and address the impact on the subject unit and project.

\_\_\_\_\_

\_\_\_\_\_

\_\_\_\_\_

Signature	Signature
Appraiser Name	Supervisory Appraiser Name
Company Name	Company Name
Company Address	Company Address
State License/Certification # _____ State _____	State License/Certification # _____ State _____
Email Address	Email Address