

**Announcement SEL-2010-09****June 30, 2010*****Selling Guide* Updates and Additional Guidance on Appraisal-Related Policies**

This Announcement describes the following:

- Appraisal-related policies that update the *Selling Guide*
- Miscellaneous appraisal-related guidance (no impact on the *Selling Guide*)
- Miscellaneous *Selling Guide* updates
- Updates to Special Feature Codes
- Updates to Mortgage Insurance Codes

For each policy change or clarification that impacts the *Selling Guide*, the topics (and specific paragraphs) are noted and are linked to the updated *Selling Guide*. Lenders should review each topic to gain a full understanding of the policy changes. The updated topics are dated June 30, 2010.

**Updated Appraisal-Related Policies**

Fannie Mae's post-purchase reviews of mortgage loan files have identified issues with appraisals. As a result of those reviews, new policy requirements and clarifications concerning existing lender requirements are being added to a number of appraisal sections of the *Selling Guide*, including:

- Inclusion of interior photographs in the appraisal report
- Lender changes to the appraised value and guidance on addressing appraisal deficiencies
- Appraiser selection criteria
- Sources of comparable market data
- Selection of comparable sales
- Communication under the HVCC
- Seller concessions
- Treatment of personal property
- *Market Conditions Addendum to the Appraisal Report* (Form 1004MC)

**Inclusion of Interior Photographs in the Appraisal Report**

Fannie Mae is requiring that interior photographs of specific rooms and areas be included in appraisal reports whenever an interior inspection is performed. The minimum requirements for the interior photographs are described in the topic noted below.

**Updated *Selling Guide* Topic**

[B4-1.2-06](#), Appraisal Forms and Report Exhibits

## Effective Date

This policy change is effective for all mortgage loan applications dated on and after September 1, 2010.

### Lender Changes to the Appraised Value and Guidance on Addressing Appraisal Deficiencies

In the past, Fannie Mae did not provide requirements concerning lenders making changes to the opinion of market value reflected in the appraisal report. During Fannie Mae's post-purchase reviews, cases were identified where the lender had reduced the opinion of market value in the appraisal report based upon underwriter judgment, automated valuation models, or other methodology. Therefore, Fannie Mae has updated its appraisal policies to address the practice of lenders changing the appraiser's opinion of market value and also to provide specific guidance when an appraisal is considered deficient.

## Updated *Selling Guide* Topic

[B4-1.4-21](#), Appraisal Report Review: Valuation Analysis and Final Reconciliation (Lender Changes to Appraised Value, Guidance on Addressing Appraisal Deficiencies)

## Effective Date

This policy change is effective for all mortgage loan applications dated on and after September 1, 2010.

### Appraiser Selection Criteria

Lenders are reminded that appraisers must have the requisite knowledge to perform a professional quality appraisal for the specific geographical location and particular property types. The use of an appraiser who has the appropriate knowledge of specific geographical markets, access to the appropriate data sources, and experience in appraising specific property types within those markets will help to ensure that valuations are accurate and that appraisal practices are appropriate. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser who 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 requires that lenders only use appraisers who have the appropriate knowledge and experience, and does not allow the USPAP flexibility. Consequently, the *Selling Guide* has been updated to state that appraisers who lack the requisite knowledge, experience, and access to appropriate data must not be utilized.

Additional revisions have been made to clarify that the lender is responsible for the appraiser's qualifications and quality of the work, and to provide guidance for determining an appraiser's qualifications.

The *Selling Guide* has also been updated with regard to the lender's use of third-party vendors, such as appraisal management companies (AMC), to clarify that

- neither the Home Valuation Code of Conduct (HVCC) nor Fannie Mae requires the use of a third-party vendor;

- lenders are ultimately responsible for representations and warranties related to the value, condition, and marketability of the subject property; and
- lenders must hold the AMC responsible for complying with Fannie Mae's requirements.

### **Updated *Selling Guide* Topic**

[B4-1.1-03](#), Appraiser Selection

### **Effective Date**

All updates and clarifications are effective immediately.

## **Selection and Use of Comparable Sales**

### **Data and Verification Sources**

Fannie Mae's appraisal report forms require that the appraiser list both data sources and verification sources with respect to comparable sales selected by the appraiser. This topic has been updated to provide examples of acceptable data and verification sources.

### **Use of Foreclosures, Short Sales, and Builder Sales as Comparable Properties**

The appraiser is responsible for determining which comparables are most appropriate for the assignment at hand. This topic has been updated to reflect Fannie Mae's requirements whenever an appraiser chooses to use either a foreclosure sale or a short sale as a comparable property.

Additional guidance is provided concerning the acceptability for an appraiser to view the HUD-1 for a new construction property in order to verify a recent sale that is not yet available through other data sources.

### **Updated *Selling Guide* Topic**

[B4-1.4-16](#), Appraisal Report Review: Sales Comparison Approach (Sources of Comparable Market Data, Selection of Comparable Sales)

### **Effective Date**

All updates and clarifications are effective immediately.

## **Miscellaneous Appraisal-Related Guidance**

### **Communication under the HVCC**

In an attempt to comply with the [HVCC](#), some lenders do not allow communication with appraisers and other parties involved in a real estate transaction. Fannie Mae has determined that appropriate communication under the HVCC is permitted, and that Section 1-C of the HVCC does not prohibit any employee of the lender or an authorized third party from requesting that an appraiser provide additional information or explanation about the basis for a valuation or from correcting objective factual errors in an appraisal report.

Section III-B of the HVCC, however, does prohibit anyone in loan production, or who is compensated on a commission basis upon the successful completion of a loan, or who reports ultimately to any officer of the lender not independent of the loan production staff and process, from having any substantive communication with an appraiser or AMC relating to or having an impact on valuation. Except for the individuals identified in the preceding sentence, employees of the lender or an authorized third party can contact the appraiser to discuss the appraisal. The appraiser needs to address any concerns the lender has, including any errors that may have been found in the report. It is incorrect for the appraiser to indicate that the HVCC does not allow for this type of communication with his or her client or an authorized representative.

## **Seller Concessions**

Lenders are reminded that excessive sales concessions can artificially inflate the sales price of a property, which can then lead to an inflated market value. Particular attention should be given to unusual sales or financing concessions to ensure that they are properly accounted for in the appraisal report. Fannie Mae's definition of market value is intended to ensure that appraisals reflect an opinion of market value after adjustments for any special or creative financing or sales concessions have been made, such as interest rate buydowns or payment of condo or homeowners' association fees.

## **Treatment of Personal Property**

Lenders are reminded that personal property, including (but not limited to) furniture, vehicles, boats, floating boat docks, and art work, may not be included as additional security for any mortgage on a one-unit property unless otherwise specified by Fannie Mae. Personal property is permitted as part of the security for a loan on a two- to four-unit property to the extent it is pledged by the *1-4 Family Rider* (Form 3170). Whether an item is real or personal property is generally determined by the law of the jurisdiction where the property is located. A professional appraiser who has the knowledge, experience, and geographical competence to complete the appraisal assignment must also possess the expertise to identify personal property items in the appraisal.

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

In Form 1004MC, in order to provide the most accurate depiction of the "Months of Housing Supply" as of the effective date of the appraisal, the "Total # of Comparable Active Listings" should be based on a specific point in time. For example, when completing the "Current – 3 Months" column for "Total # of Comparable Active Listings," the number should reflect the listings on the most recent date in the 3-month period (which is also the effective date of the appraisal), and not the cumulative number of listings for the entire 3-month time period. Then, when completing the "Months of Housing Supply," the number for the "Total # of Comparable Active Listings" is divided by the absorption rate, which provides an accurate depiction of the existing housing stock as of the effective date of the appraisal. (Using a cumulative number of listings during the "Current – 3 Month" time period may result in an artificially high number for the "Months of Housing Supply.")

If data is available for the previous time periods, such as "Prior 4 - 6 Months" and "Prior 7 - 12 Months," the "Total # of Comparable Active Listings" should be based on the most recent day in each of those time periods. For example, in the "Prior 4 – 6 Months" column, the "Total # of Comparable Active Listings" should reflect the listings on the last (most recent) day in that time

period. Likewise, in the “Prior 7 – 12 Months,” the “Total # of Comparable Active Listings” should reflect the listings on the last (most recent) day in that time period.

### **Updated *Selling Guide* Topic**

None

### **Effective Date**

These clarifications are effective immediately, except for the calculations related to Form 1004MC, which may require appraisers to change their technology. Lenders should encourage appraisers to perform these calculations immediately, but must require appraisers to use the calculations for all mortgage loan applications dated on and after September 1, 2010.

### **Miscellaneous *Selling Guide* Updates**

This *Selling Guide* update includes a number of other miscellaneous changes:

- Incorporation of Announcement SEL-2010-08, *Underwriting Borrowers with a Prior Foreclosure*
  - [B3-5.3-07](#), Significant Derogatory Credit Events – Waiting Periods and Re-establishing Credit (Foreclosure, Summary – All Waiting Periods)
- Clarification of the LTV ratio calculation for properties located in New York State
  - [B7-1-01](#), Provision of Mortgage Insurance (LTV Ratio Determination in New York State)
- Clarification that title insurance premiums or charges dependent on local custom may or may not be considered interested party contributions
  - [B3-4.1-03](#), Types of Interested Party Contributions (IPCs) (Financing Concessions)
- Removed redundant policy regarding the percentage of renovation costs for HomeStyle Renovation loans
  - [B5-3.2-02](#), HomeStyle Renovation Mortgages: Borrower Eligibility (Mortgage Terms)
  - [B5-3.2-03](#), HomeStyle Renovation Mortgages: Underwriting and Collateral Considerations (Appraisal Requirements)

### **Effective Date**

All updates and clarifications are effective immediately, with the exception of the updates to B3-5.3-07, which are not effective until October 1, 2010. Refer to Announcement SEL-2010-08 for additional information.

### **Updates to Special Feature Codes**

Fannie Mae has updated the [Special Feature Code](#) (SFC) list that is published on eFannieMae.com with the following changes:

- SFC 162 - SSN Positively Validated through Social Security Administration was added. This code was previously announced in Announcement SEL-2010-01, *Selling Guide Updates*.
- SFC 222 – Housing for People with Disabilities was added. This code has been required by the *Selling Guide* for a number of years; however, it was not on the Special Feature Code list.

- Several discontinued codes were removed from the list (the delivery deadline has passed for loans subject to the use of these codes) – 346, 347, 480, 481, 519, 612, and 716.

### **Updates to Mortgage Insurance Codes**

Fannie Mae has updated the [Acceptable Conventional Mortgage Insurers and MI Codes for Loan Delivery](#) list that is published on eFannieMae.com. MI Code 17 has been removed and Code 33 has been updated to include seasoned loans insured by Commonwealth Mortgage Assurance Company (previously reported with Code 17). This change is effective immediately.

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Lenders who have questions about this Announcement should contact their Customer Account Team.

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