

Appraiser Update

September 2019

Periodic updates for residential appraisers serving Fannie Mae lender customers

All year we have been talking about our efforts to modernize the appraisal process. In this newsletter, we are excited to continue talking about our Value Verify™ initiative and answering questions we've received from you while we've been testing this new process. We also respond to questions about our traditional appraisal requirements, USPAP disclosures, and desktop appraisals. Specifically, we focus on property inspections — who performs them, what are the minimum requirements for compliance, and what are some limitations. And lastly, we share info about our state board referral process.

Collateral Policy Team
Fannie Mae

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Forms for appraisers performing PDC and desktop appraisal



We've been hearing this question from appraisers regarding the Data & Appraisal option of Value Verify: "If I complete a property data collection (PDC) and am also engaged to do the appraisal of the same property, should I complete the appraisal on the traditional 1004 form since I have personally inspected the subject property?" The answer is no.

The PDC and the appraisal are separate engagements. At the time of the PDC, it is not yet known whether an appraisal will be required. Desktop Underwriter® issues that decision after receipt of the completed PDC. When the PDC and the appraisal are performed by the same person,

the resulting appraisal is still technically a desktop appraisal because the PDC occurred separately from and prior to the engagement of the appraiser to perform the appraisal. This means the PDC cannot lead to a traditional 1004; the **appraiser must use the modified certification version of the 1004 (i.e., Form 1004P, which is being used in pilot testing).**

When the same appraiser does both the PDC and the appraisal, **the appraiser also must disclose the PDC as a prior service performed on the subject property** (see USPAP Ethics Rule). The report is still a desktop appraisal (with reliance on information from a prior service). The modified certifications remain accurate and applicable in that the appraiser **did not** inspect the subject property as part of this appraisal assignment.



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Desktop appraisals, assumptions, and hypothetical conditions



Appraisers may receive property data previously collected by someone else to inform a desktop appraisal assignment for Value Verify. Appraisers commonly ask if they should use hypothetical conditions or extraordinary assumptions for these assignments.

An appraiser uses a hypothetical condition when an assignment condition is contrary to known facts but necessary for analysis. An example is proposed construction: The property can be appraised as if the construction were complete even though it's not. The key to using a hypothetical condition is transparency. The report must clearly disclose which elements are contrary to fact. We do not allow hypothetical conditions except for reports marked "subject to" completion of construction or repairs.

For Value Verify, if the appraiser finds an inaccuracy in the property data, the appraiser must not rely on the inaccurate data but instead use the alternative data source that was instrumental in uncovering the inaccuracy. In other words, a hypothetical condition is not a valid mechanism for dealing with inaccurate property data. Appraisers should consider all data sources available in the normal course of business, use the most credible source(s),

and disclose how inconsistencies were resolved. This is fundamental to our profession – analyze, interpret, explain.

An extraordinary assumption can be used to manage uncertain information that, if found to be false, could alter appraisal results. USPAP states that extraordinary assumptions are assignment-specific. This might explain why appraisers don't normally employ extraordinary assumptions when relying on uncertain information, such as MLS and public records. Those sources are so widespread that the assumption of accuracy, although not always valid, is at least common, not assignment-specific. USPAP no longer defines the ordinary assumption, but for those of us who've been in this profession a while, you will recall that not all assumptions are extraordinary.

The 1004P appraisal form lists assumptions required for the desktop assignment. We allow two additional assumptions as needed. If the date of property data collection is not the same as the effective date of the appraisal, we allow the appraiser to assume that the property characteristics have not changed in the interim. Also, appraisers may assume there are no material omissions in the property data. We only accept these assumptions when there is no contrary evidence (no hypothetical conditions allowed). Many desktop appraisals have been performed relying on previously-collected property data; these assumptions have become common practice for these assignments.



Locked rooms



The Fannie Mae *Selling Guide* requires that traditional appraisals must be based on “complete visual inspections of the accessible areas of the [subject] property” with the caveat that appraisers are not responsible for hidden or unapparent conditions. The question sometimes arises as to what is meant by accessible areas. For example, what if a room is locked at the time of inspection so that the appraiser is not able to inspect that room?

The answer is that the appraiser must be allowed to view the entire house, including any locked rooms. Otherwise, the appraisal report will need to be made “subject to” inspection of any inaccessible areas.

Appraisers can avoid this situation by informing homeowners ahead of time that access to all areas is required.



For more information about Fannie Mae’s minimum appraisal inspection requirements, see our [Appraisal and Property-Related FAQ \(Q31\)](#) and [Selling Guide section B4-1.2-01](#).

Consumer protections



There is a common perception that appraisals ordered by lenders provide protections for consumers. The benefit of those protections is often overstated. As mentioned in the URAR, “The intended use of [the] appraisal report is for the lender ... to evaluate the property ... for a mortgage finance transaction. The intended user of [the] appraisal report is the lender ...” (see p. 4). Two reasons for this misconception are:

1. Confusion between inspections done by appraisers and professional home inspectors. Appraisal inspections identify obvious repair issues, but they are not comprehensive and do not identify hidden defects. In fact, mortgage lending appraisals typically include disclaimers around the level of property inspection to reinforce that appraisals are not interchangeable with home inspections and do not guarantee that all property defects were identified.
2. Belief that appraisals indicate when a homebuyer is overpaying. Timing is an issue here, since an appraisal is typically obtained after signing the purchase agreement — too late to inform the homebuyer’s choice. Purchase contracts may work around this by including an appraisal contingency, creating opportunity for renegotiation. Ninety-three percent of purchase appraisals submitted to the Uniform Collateral Data Portal agree with the contract price, and we only see lower values 10% of the time on

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the rest. At this point, homebuyers may be emotionally invested and not inclined to take a strong negotiating stance.

USPAP is replete with declarations about the importance of identifying the intended user and intended use. That determines the scope of work and level of reporting. Consequently, report content is geared toward mortgage lenders — who are sophisticated appraisal consumers — while homebuyers may miss nuances, since they are relatively unsophisticated readers when it comes to appraisal reports. A party receiving a copy of the appraisal report to satisfy disclosure requirements does not automatically become an intended user (see USPAP Standards Rule 2.2, AO-22, and AO-36, for example).

When prospective homebuyers specifically want a professional, unbiased opinion on property value to help guide their home-buying decision, appraisers and real estate professionals can encourage them to order their own appraisal earlier in the process.

State board notifications



The Fannie Mae Loan Quality Center regularly samples appraisals from our recent loan acquisitions. When we occasionally find deficiencies that are severe enough to impact the eligibility of the loan for delivery to Fannie Mae, part of our course of action is to share that appraisal with the applicable state regulatory agency. Referrals are only made after we have completed multiple levels of due diligence, including internal management reviews and lender appeals. The resulting volume of notifications is a very small fraction of the total number of appraisals we receive. This process helps protect the integrity of the appraisal profession and improve the competitive landscape for appraisers, who take pride in the quality of their work.



Contact Fannie Mae about appraisal topics

Use the [“Contact Us” form](#) to share what’s on your mind and submit feedback and questions on appraisal topics.

Connect with us!

Appraisal Summit
Las Vegas, NV • Sept. 15 – 17

RAC Conference
Plano, TX • Sept. 20

Valuation Expo (fall)
Las Vegas, NV • Sept. 30 – Oct. 2

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