

Appraiser Update

December 2019

Periodic updates for residential appraisers serving Fannie Mae lender customers

This year has been a busy one. In addition to our policy work and appraisal modernization testing highlighted in earlier editions of this newsletter, we've been building stronger relationships with you. We've had thousands of conversations, answered hundreds of questions through our mailbox, listened to feedback — positive and negative — at the 25+ industry events we've attended, and even launched a new continuing education class through our partnership with The Columbia Institute. We're also especially proud of our collaboration with the National Urban League to promote appraisal careers, and we're thrilled that the Appraisal Institute has recently signed on as well. So, we want to celebrate the season by dedicating this newsletter to our partnership with you. This edition includes an overview of our mission, appraisal tool tips, a summary of the most frequent appraisal defects, and responses to common questions, including multiple parcel properties and appraisal waivers.

We hope you and your loved ones have a wonderful holiday season!

Collateral Policy Team
Fannie Mae

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Our role in the housing market



Fannie Mae provides liquidity to the mortgage market and supports the availability and affordability of U.S. housing. The company operates in the secondary mortgage market. It does not originate loans or lend money directly to consumers in the primary mortgage market. Instead, Fannie Mae securitizes mortgage loans originated by lenders into mortgage-backed securities (MBS) that the company guarantees. Fannie Mae MBS provide liquidity to the market by accessing a global community of MBS investors.

Congress created Fannie Mae in 1938 to help banks finance mortgages, including long-term, fixed-rate loans that would enable more Americans to purchase homes. Its Charter requires that Fannie Mae facilitate residential mortgage lending for single-family and multifamily residential properties. The Single-Family business supports financing for residential dwellings comprising four or fewer units.

The Multifamily business focuses on properties with five or more residential units, including apartments, cooperatives, senior housing, student housing, and manufactured housing communities.

Fannie Mae manages mortgage credit risk by acquiring loans that meet our origination, quality control, and servicing policies, including property and appraisal requirements. Our transparent and robust risk management creates a level playing field for industry participants and instills confidence for mortgage risk investors.

When the global economic recession hit in 2008, Fannie Mae was placed in federal conservatorship. Fannie Mae remained active in the U.S. secondary housing market during the recession and helped millions of people stay in their homes.

As of September 30, 2019, Fannie Mae owned or guaranteed more than \$2.9 trillion in single-family mortgage-related assets and more than \$300 billion in multifamily mortgage-related assets.





How are you modernizing?



The appraisal industry has come a long way toward modernization in the past few years. “Modern” tools make appraisers more efficient — common examples include electronic measuring devices, digital photos, and appointment scheduling software.

Technology and online tools — including many that are free — can help with both property inspections and analysis. Google Maps™ is a popular free tool (see sidebar).

What technologies do you use when completing your appraisals? Send us a comment via the Contact Us feature on the Appraisers page at www.fanniemae.com/appraisers, and we may feature your tip in an upcoming newsletter.

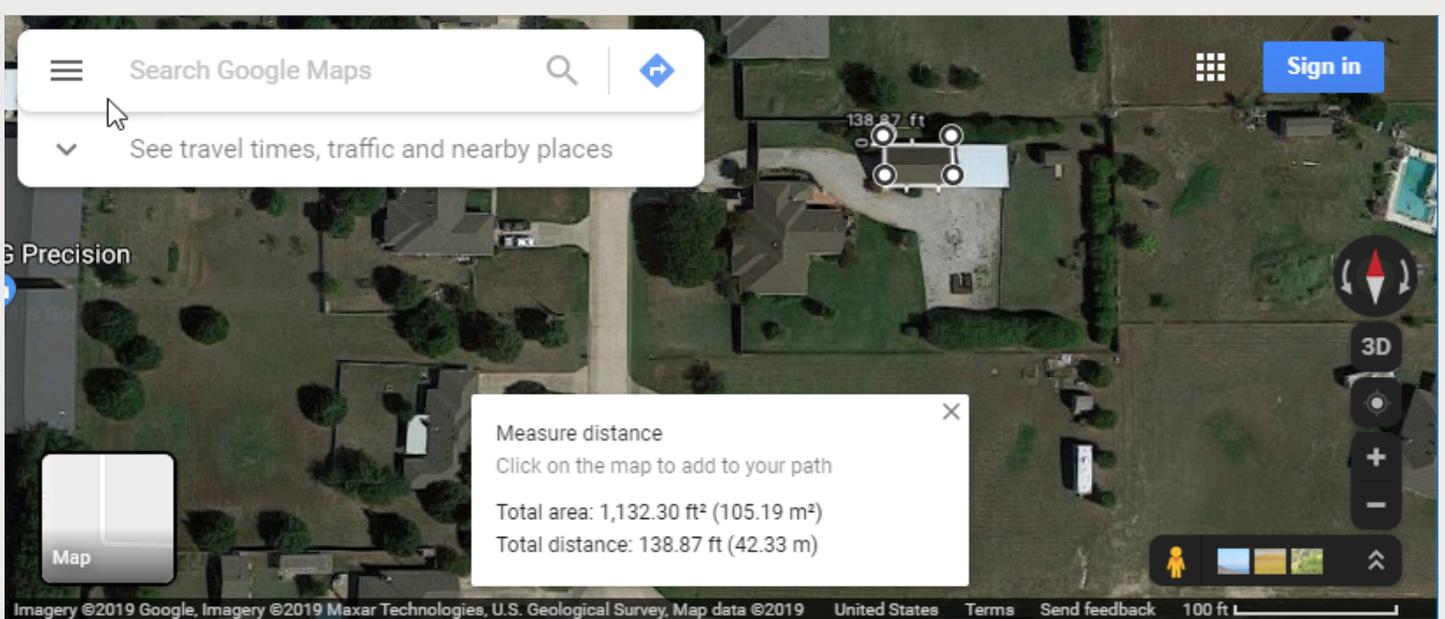
Pro Tip: Google Maps

To get a rough estimate of distance or square footage:

- From the satellite view, place the mouse where you’d like the measurement to begin and right click.
- Select “measure distance” and then click another point to find the distance between those two points.
- Close the points to get square footage.

To check on exterior changes:

- In street view, click the clock on the upper left of the screen to see prior images from the same location. Images may show if changes have been made to the exterior of a property, including additions, and roughly when those changes happened.



This summary is intended for reference only. All criteria are subject to the formal terms and conditions of the Fannie Mae *Selling Guide*. In the event of any conflict with this document, the *Selling Guide* will govern.



Multiple parcels



We recently received questions about whether appraisers can perform assignments with multiple parcels. To be eligible for Fannie Mae, the *Selling Guide* ([B2-3-04](#)) states that parcels must:

- Convey in their entirety.
- Be contiguous (unless divided by a road, and the parcel without a residence is non-buildable).
- Have the same zoning.
- Contain only one dwelling unit.
- Be covered by a valid first lien.

Some appraisers asked if a property is still eligible if each parcel has a different tax ID. The answer

is yes. All parcels will be encumbered by a first lien, prohibiting the separation and sale of the additional parcel(s) without the lienholder's approval, which would result in a new valuation. If the criteria above is not met, contact your lender to discuss next steps.

As an appraiser, you must determine if the additional parcel is excess or surplus land. The main difference is that surplus land cannot be developed separately from the property, while excess land has the potential to be sold separately because it is not needed to serve or support the existing improvements. Excess land is considered "value in use" for the purpose of the appraisal, so the land should be described and its contributory value included in the grid.

How appraisal waivers fit with our risk mindset



Are appraisal waivers risky? We've heard that question from appraisers. As a risk management company, we are laser-focused on continuously monitoring risks and offering risk-appropriate solutions to our lender partners. Appraisal waivers are a tool that we use in a very targeted, strategic way.

While they constitute only a small fraction of our total acquisitions, loans delivered with appraisal waivers perform better than our overall book of business. Since 2017, loans delivered with appraisals have defaulted more than three times as often as loans with appraisal waivers. In the rare instances when loans with appraisal waivers have defaulted, the loss severity was about 33% lower than loans with appraisals from the same time frame. These loans perform better simply because we offer appraisal waivers only on transactions for which we perceive lower risk.

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Season's greetings from your friends at Fannie Mae.
We wish you happiness this holiday season and a bright new year.



Significant appraisal defects



Fannie Mae's Loan Quality Center (LQC) completes reviews on both random and targeted samples of appraisals from our recent loan acquisitions. We leverage data and analytics to focus our efforts on appraisals with higher probability of defects.

Our primary tool is Collateral Underwriter® (CU®), which conducts advanced analytics using data from millions of appraisals along with other sources, including MLS records, tax assessments, aerial and street-level imagery, building permits, and more. We routinely find significant defects

in appraisals that impact the loan's eligibility for delivery to Fannie Mae.

Accounting for 54.5% of the cited defects year-to-date, the top five significant defect categories are: 1) use of physically dissimilar comparable sale(s) (21%); 2) inappropriate comparable sale(s) selection due to location (14.5%); 3) comparable sale(s) physical features reported inaccurately (9%); 4) subject physical features reported inaccurately (5%); and 5) use of dissimilar comparable sale(s) due to site characteristics (5%). Focusing on these common mistakes and double-checking your work can help you deliver your best work to your client — you don't want your appraisal to be the reason that a lender must repurchase a loan from Fannie Mae.



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.

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