



Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our September 2021 Fannie Mae Appraiser Update. This edition focuses on themes that are relevant to prominent headlines in our industry. One timely topic is why time adjustments are an important consideration for any appraisal assignment in today's housing market.

Appraisers play an important role in identifying risk for condo, planned unit development, and co-op projects by documenting and analyzing special assessments and deferred maintenance.

Our AQM series continues with a deeper look at one type of issue: when improbably large numbers of valuations are submitted by a single appraiser. And we also invite you to provide your observations and input related to racial bias in the industry by completing a short survey.

Please use the Contact Us link at the end of this newsletter to tell us what you would like to read about in future newsletters.

Collateral Policy Team
Fannie Mae

In this issue

- 2 Are you accounting for changing market conditions?
- 3 HOA, condo, and co-op special assessments and deferred maintenance
- 4 AQM letters for improbable appraisal volumes
- 5 We want to hear from you about bias



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Are you accounting for changing market conditions?

Fannie Mae's Home Price Index (HPI) indicates home prices rose nationwide by 6.3% in Q1 and 10.5% in the first half of 2021, representing the highest price growth in U.S. housing since 1975. In many major metropolitan areas, home prices have risen even faster. Record low interest rates and increased housing demand have combined with a limited number of homes for sale to contribute to the surging home prices.

As we shared in the [Appraiser Update March 2021](#), time adjustments are a critical element in establishing an accurate value. The comparable sales must be analyzed to determine if there has been an increase or decrease in the market since the contract date.

We analyzed all appraisals submitted to the Uniform Collateral Data Portal® since February 2021 and found that when Property Values were marked **Increasing**, only a small fraction included time adjustments.

Why aren't time adjustments made more frequently? Do appraisers, lenders, and appraisal management companies (AMCs) believe the myth that Fannie Mae does not allow time adjustments? Is it to avoid lender or AMC pushback demanding further justification and explanation for these adjustments? The appraiser's first obligation is always to one's professional integrity. Failure to account for time differences in a rapidly changing market, even if it is due to skepticism from the client, will seriously diminish the credibility of the appraiser.

A variety of data sources exist for deriving rates of market increase or decline, and there are several reliable techniques for applying time adjustments. The appraiser must have market support for whatever time adjustment technique is used, just like the market support required to adjust for property characteristics.

Some appraisers may not be proficient in the methods for making time adjustments or may have limited experience appraising in changing markets. If you have questions on this topic, just click on **Contact Us** on the [Fannie Mae Appraisers Page](#) or at the bottom of this newsletter to submit your question.

HOA, condo, and co-op special assessments and deferred maintenance

We have long required that appraisals of condos address special assessments and deferred maintenance, because those factors can significantly impact value, marketability, and homeownership sustainability.

Special assessments fall into two main types. The first meets utility or infrastructure requirements, typically for new projects. The second funds repairs or updates. Fannie Mae provides guidance for the first type in [Selling Guide B4-1.4-09, Special Assessment or Community Facilities Districts Appraisal Requirements](#). Additional requirements for both types are outlined in [Appendix D](#) of the Uniform Appraisal Dataset (UAD):

Special Assessments: *The appraiser should enter any special assessment applicable to the subject property. **It must be expressed as an annual or annualized amount.** If there is more than one special assessment, enter the annualized sum of all special assessments. If there are no special assessments applicable to the subject property, enter the numeral zero (0). Additional information about special assessments may be provided elsewhere in the appraisal report.*

Fannie Mae expects the appraiser to:

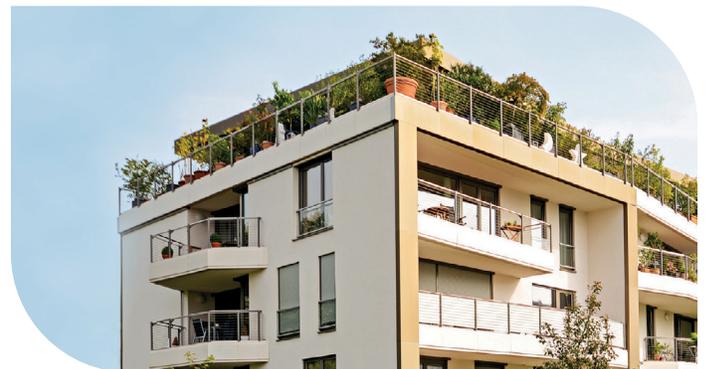
- Report the annual assessment in the Special Assessments field.
- State the following in the body of the report:
 - The outstanding balance.
 - The payment plan, including duration.
 - What the assessment is being used for.

Getting these details can be challenging. The lender, the borrower, and the project management company have this information and should provide it to the appraiser. Every good faith effort should be made to obtain this information. The appraisal is not complete without it!

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Since condo unit property rights typically include an ownership share of the undivided land and project amenities, the appraiser must report and analyze special assessments, deficiencies, and deferred maintenance for the project as well as for the individual unit being appraised (an individual unit may have paid its special assessment, while other units have not paid yet) in order to form an accurate opinion of value. The information about special assessments can be very helpful to the appraiser in identifying deficiencies and deferred maintenance. This pertains not only to existing special assessments, but also to proposed special assessments.

Appraisers should remember that this applies to all types of projects, including planned unit developments and co-ops.





AQM letters for improbable appraisal volumes

Appraisers performing an improbable volume of appraisals may receive letters from Fannie Mae's Appraiser Quality Management (AQM) team reminding them of their duty to properly disclose any professional assistance, including allowing trainees to sign reports when the trainee's level of participation satisfies the requirements described in the Appraiser's Certification.

We consider multiple elements when asserting that an improbable volume of appraisals has been submitted to the Uniform Collateral Data Portal. These include things like property location, appraisal type, assignment complexity, and distance between subject properties. It is not based on a pre-determined daily, weekly, or monthly volume.

For example, it might be reasonable for an appraiser to complete eight inspections of newly constructed homes in the same subdivision on the same day. However, it would be unlikely that an appraiser could personally inspect three homes on the same day if they were located across non-contiguous states.

These AQM letters lay out our concerns related to improbable appraisal volumes by listing specific dates and the number of inspections completed by the appraiser on those dates. The letter also restates guidance from the *Selling Guide* regarding the requirements for appropriately disclosing professional assistance, including having trainees sign the appraisal report. Further, if we found significant appraisal quality issues with the appraisals in question, the letter may also include examples of unsupported opinions of value and evidence of unacceptable appraisal practices.

Maintaining the highest standard of personal integrity is essential to any appraiser's business model.

Most appraisers receiving this type of letter respond by correcting their work in compliance with our *Selling Guide* requirements. When we do not observe improvement, the appraiser receives follow-up communications. In egregious cases, we may report the appraiser to state regulatory agencies. Another possible consequence could be placement of the appraiser on our 100% QC review list (thereby notifying our lending partners).



How to avoid an AQM letter related to improbable volume:

- Accurately disclose professional assistance when it has been provided.
- Have trainees sign the appraisal when they acted as the appraiser (when acceptable by the state).
- Do not sign reports completed by others except when acting as the supervisory appraiser.

As we've seen lately in the news media, the integrity and professionalism of appraisers are being scrutinized and challenged. Maintaining the highest standard

of personal integrity is essential to any appraiser's business model. Full disclosure of all who participated in performing the appraisal assignment is not only necessary to establish and maintain the appraiser's credibility, but it also can benefit trainees by helping them get credit for their professional experience.

Additional information about disclosing professional assistance and the use of trainees can be found in the Fannie Mae [Selling Guide B4-1.1-03, Appraiser Selection Criteria](#).

We want to hear from you about bias

News media reports alleging racial bias in home appraisals have turned a spotlight on the appraisal process in the mortgage industry. We at Fannie Mae take allegations of appraisal bias seriously, and as one of the largest consumers of residential appraisals in the United States, we want to make sure we are doing all we can to identify and help prevent it. Many of the conversations on this topic have excluded appraisers. To help us address appraisal bias from all perspectives, we need your input. [Click here](#) to answer this anonymous survey about racial bias in appraisals. You may share the link with others. The survey closes on October 3, 2021.

For more info



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