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Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our June 2023 Fannie Mae Appraiser Update.

In this edition, we focus on certain appraisal quality issues and share examples of ways we identify and mitigate the resulting risks.

First, we share some patterns of how appraisers adjust for lot size, and compare them to how Collateral Underwriter® (CU®) adjusts for the same features. Then, we look at how new technology enhances our ability to identify inconsistencies in quality and condition ratings. Other technologies aid in the identification of subjective language or prohibited factors in appraisal reports.

We also provide information about several appraisal-related policy changes in the March update to Fannie Mae's *Selling Guide* and about the Uniform Appraisal Dataset (UAD) and Forms Redesign project.

We would appreciate it if you share what's on your mind, submit feedback, and ask questions about appraisal topics using the link at the end of this newsletter.

Collateral Policy Team
Fannie Mae

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To adjust or not to adjust

Appraisers often ask us if we can share analytics from CU. We recently analyzed appraiser adjustments for site size from more than 600,000 appraisals performed in late 2022 and compared them to CU model adjustments.

One particularly striking pattern emerged when the subject site size is 4,000 sq. ft. or less. These relatively small lots commonly occur in high-density developments in urban or suburban areas where land is scarce and expensive. The incremental utility of additional land is also relatively high – it can mean the difference between having useable outdoor space (such as a patio, a yard, or car storage), or not. Consequently, lot size differences should have a substantial impact on price and value.

This table summarizes the frequency of appraiser adjustments, the average rate of appraiser adjustments, and the average rate of our model adjustments for a spectrum of lot size differences:

Lot sizes ≤4,000 sq. ft.

Comparable lot size	Frequency of appraiser adjustment	Size of appraiser adjustment (avg)	CU model adjustment (avg)
Comp 200%+ larger	53.3%	-2.8%	-15.7%
Comp 100% - 200% larger	47.9%	-1.2%	-10.1%
Comp 50% - 100% larger	35.3%	-0.6%	-6.8%
Comp 25% - 50% larger	20.3%	-0.2%	-4.2%
Comp 10% - 25% larger	7.8%	-0.1%	-2.2%
Comp < 10% larger	2.5%	0.0%	-0.6%
Comp = Subject	0.1%	-0.1%	0.0%
Comp < 10% smaller	2.5%	0.0%	0.6%
Comp 10% - 25% smaller	7.9%	0.1%	2.8%
Comp 25% - 50% smaller	18.5%	0.3%	6.6%
Comp 50% - 100% smaller	27.4%	0.5%	13.8%

Note: Data represented in the table is a subgroup (subject lot sizes ≤4,000 sq. ft.) of over 600,000 appraisals performed in late 2022.

We were surprised to find that appraisers often do not adjust for large differences in site size. For example, when the comparable site is at least three times as large as the subject (top row in the table), appraisers made no adjustment nearly half the time. When they did adjust, the average adjustment was only about 3% of the comparable price. Contrast that with the average CU adjustment rate of more than five times greater.

This pattern implies that many appraisers find little contributory value from land in high-density locations, which is counterintuitive. We encourage appraisers to re-examine their approach to site size adjustment.

Of course, these adjustment rates are only nationwide averages. Our intention in sharing this data is not to prescribe a particular adjustment rate; the appraiser needs to derive the appropriate rate for the specific circumstance from the market. But this does illustrate an appraisal practice that could cause misvaluation.

We hope this information will be helpful to appraisers and consumers of appraisals.

Watch the [Adjustment Myths of Anguish](#) to see the Noble Appraiser and friends vanquish myths around adjustment policy and practice.



Using image recognition technology in appraisal report reviews

Differences in condition or quality between the subject and comparables can significantly impact the market value. Incorrect [condition \(C\)](#) or [quality \(Q\) ratings](#) can lead to missing or faulty adjustments to comparable sales, resulting in unsupported, inaccurate appraisals. Although Fannie Mae requires appraisal reports to include interior and exterior photos of subject properties, we only require one exterior front photo for each comparable. In the absence of interior photos for comparables, it can be difficult for clients and other readers of appraisal reports to identify this issue.

To bridge this gap, we are using image recognition technology to analyze C and Q ratings in appraisal reports against photos acquired from other sources such as Multiple Listing Service (MLS) listings. In a recent test, we analyzed more than a million appraisals with this technology. The test identified a small subset with high probability of erroneous C or Q ratings.

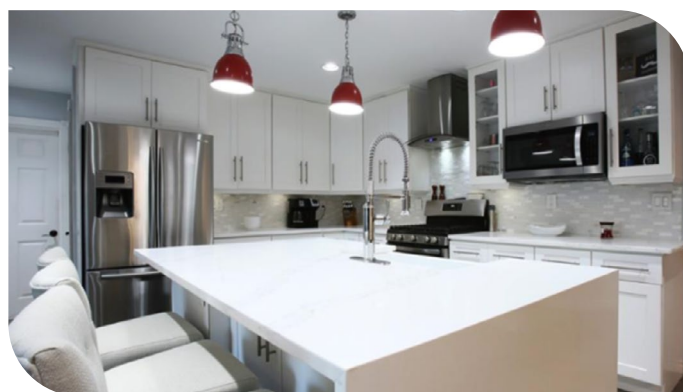
Appraisal experts in our Loan Quality Center reviewed those reports and found the model prediction was 98% accurate. This enabled us to identify appraisal defects much more efficiently than our other processes, including many defects that previously were impossible for our technology to triage. We plan to deploy this technology in CU and in our standard selection process for post-acquisition loan quality reviews in the near future.

Take a look at the following photos for an example of an appraisal report flagged by the image recognition technology. The subject property is 51 years old, maintained but not remodeled, and rated C3 by the appraiser. The appraiser also rated all comparables in the report as C3. Would you have given these properties identical ratings with no condition adjustments?

Subject kitchen



Comparable kitchen



Subject bathroom



Comparable bathroom



What does this mean for appraisers? Appraisers who are diligent in factually and objectively determining C and Q ratings (and adjustments) will have a competitive advantage, while those who are not rigorous may experience higher rates of defects and all the associated impacts such as lender requests for reconsideration of value, or Appraiser Quality Monitoring letters.



Prohibited factors and subjective terms

We use text recognition technology to scan appraisals for prohibited and subjective language, then validate the results with human reviews. Here are some key categories of what we look for, with examples of issues we have found – all quoted from real appraisal reports.

Use of subjective terms

[B4-1.1-04, Unacceptable Appraisal Practices](#) in the Fannie Mae *Selling Guide* defines subjective language as the “use of unsupported assumptions, interjections of personal opinion, or perceptions ...” Whether something is “desirable” or not is a personal viewpoint that differs from person to person.

Using subjective statements has the potential to compromise the credibility of an appraisal as it suggests that subjective information or the appraiser’s personal bias may have influenced the results.

Example from a submitted appraisal report

“THIS NEIGHBORHOOD IS HIGHLY DESIRABLE ...”

Use of non-appraisal related factors

Selling Guide [B4-1.3-03 Neighborhood Section of the Appraisal Report](#) states that “[c]ertain other factors that are not appraisal factors, such as the racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a particular neighborhood, must not be considered in the valuation process.” Only include information in the report that is used to develop the opinion of value or is required by law or policy.

“Tribes” and “Caucasian” are explicit references to race or ethnicity that cannot be used to support development of the appraisal; further, the relevancy of the appraiser’s history lesson in fishing rights or treaties to the property’s value is questionable.

Example from a submitted appraisal report

“THE U.S. GOVERNMENT AND THE LOCAL TRIBES SIGNED A TREATY IN 1855. THE TRIBES HAD FISHING RIGHTS FOR THOUSANDS OF YEARS BEFORE THE CAUCASIAN INVASION.”



Referencing a protected class

Using any language related to the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class, as outlined in [Selling Guide B4-1.1-04, Unacceptable Appraisal Practices](#), could be perceived as commenting on the racial or ethnic make-up of a neighborhood or the type of families that live in the neighborhood, and is prohibited.

While describing the proximity of an entertainment district, grocery store, or community amenity may be relevant to an appraisal assignment, identifying it as belonging to a specific ethnic group or religion is prohibited.

Example from a submitted appraisal report

***“THE ST. LOUIS JEWISH
COMMUNITY CENTER CAMPUS
IS 0.25 MILE EAST.”***

Fannie Mae’s *Selling Guide* requirements are designed not only to help ensure fair and equitable appraisals but also to help protect appraisers from liability. Whether you are an appraiser or appraisal reviewer, please take time to understand our policies and to carefully review appraisal content for compliance.



In case you missed it

UAD redesign begins rollout phase

The Uniform Appraisal Dataset (UAD) and Forms Redesign reached a major milestone with the publication of implementation resources. Fannie Mae and Freddie Mac (the GSEs) have worked on the UAD redesign since 2018, leveraging extensive stakeholder input to update the appraisal dataset, align it with current mortgage industry data standards, and replace the GSE appraisal forms with a single, data-driven, flexible, and dynamic appraisal report for any residential property type. To begin the multiyear rollout phase, the GSEs have posted an industry playbook and technical specifications.

Fannie Mae and Freddie Mac representatives will be at [Valuation Expo](#) August 7-9 and [Appraisal Summit](#) September 16-19 to walk you through examples and answer questions.

[Access the Resources and Learn More](#)



Selling Guide updates

The March 1 update of the Fannie Mae *Selling Guide* introduced value acceptance + property data and included other topics of interest to appraisers. Click on the *Selling Guide* links below to explore the clarifications and revisions to our valuation-related policies.

[B4-1.2-01, Appraisal Report Forms and Exhibits](#)

- Clarified that photos are required for all interior rooms including bedrooms and basement for appraisals in loan applications dated on or after Sept. 1, 2023.

[B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements](#)

- In addition to the 1004D legacy process, lenders may opt to use virtual inspection and attestation letters as follows:
 - Completion of the 1004D using virtual inspection
 - Borrower/builder attestation letter along with photos for new/proposed construction
 - Borrower attestation letter along with visually verifiable exhibits and other documentation to confirm completion of alterations or repairs for existing construction
- Revised requirements for minor condition items (including handrails)
- Revised requirements for items that affect safety, soundness, and structural integrity of the property
- Clarified that the appraisal must have sufficient information to identify the quality and character of the proposed construction

[B4-1.3-06, Property Condition and Quality of Construction of the Improvements](#)

- Clarified that C6 properties are not eligible for delivery
- Clarified that the lender must decide the need for repairs when an appraisal is “subject to” an inspection by a qualified professional – i.e., the appraiser is not required to review the report and is only involved if repairs are needed
- Appraisal reports should be made “subject to” if the appraiser indicates infestation, dampness, or settlement on page 1 of the appraisal

[B4-1.4-08, Environmental Hazards Appraisal Requirements](#)

- An appraisal must be made “subject to” an inspection by a qualified professional when the report notes hazardous conditions



For more info



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