



Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to the 25th edition of the Fannie Mae Appraiser Update. From the start, we've worked to create proactive communication with the appraiser profession and to promote alignment between appraisers, appraisal management companies, lenders, and Fannie Mae. We want to thank you for your support, for subscribing to and reading this newsletter, and for sending us your questions and feedback.

In this final edition of 2023, we take a trip down memory lane to revisit our Lender Letter from 2015 on appraisal topics. Other articles touch on recent changes to our requirements for manufactured housing appraisals, how to get answers when you need them, and a reminder for how to treat seller concessions.

Again, thank you for your engagement. We wish you and your loved ones a wonderful holiday season!

Please [let us know](#) what you would like to see in future newsletters.

Collateral Policy Team
Fannie Mae

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Seller Concession Concerns

As some housing markets have slowed in reaction to higher interest rates, we have observed an increase in the use of seller concessions. Appraisers should be on the lookout for seller concessions and analyze their impact on transaction prices.

Seller concessions are non-real property considerations that the seller grants to the buyer as part of a real estate transaction. For home purchases, this is most commonly an agreement to pay financing costs on behalf of the buyer although they can take other forms like including personal property to “sweeten the deal.”

Two of the components of our definition of value are:

- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

With this definition in mind, the principal valuation risk from seller concessions is the potential to affect the sale price – was the price increased to cover the cost of the concession?

The *Selling Guide* provides instructions to appraisers on how to mitigate this risk:

“Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the comparables based on the market at the time of sale. The amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions.

The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area.”

It also says “adjustments must reflect the difference between what the comparables actually sold for with the sales or financing concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions. If the appraiser’s analysis determines that the market’s reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.”

Market theory suggests that sellers would typically aim to recover the expense of the seller concession by increasing the price, so something close to a dollar-for-dollar adjustment would be the predicted outcome of the appraiser’s analysis in most cases.

We looked at appraisal data from Q4 2021 to Q3 2023 to test our prediction. This time period was characterized by shortages in listing inventory relative to historic levels, giving sellers considerable leverage to negotiate recovery of the cost of any concessions.

Within this appraisal population, appraisers reported seller concessions for 7.6 million comparables. Of great concern, for 58% of these comparables, the appraisers made no adjustment for the concessions. Of course, this tends to inflate the appraisal results and undermines the credibility of the appraiser.

On the brighter side, for the minority of cases when appraisers did adjust, they adjusted dollar for dollar 86% of the time.

In summary, when using comparable sales that include seller concessions, remember to report the concessions and adjust for the impact on the sales price.



From the Archives

We published [Lender Letter LL-2015-02](#) over eight years ago, but it remains relevant to appraisers and lenders today. In fact, many of the myths and misinformation addressed in this lender letter continue to circulate, so we thought it would be helpful to revisit it. Here are some of the highlights.

Adjustments

Shortly before issuing the lender letter, we removed a long-standing policy requirement for the appraiser to explain why a comparable sale was included in the report whenever adjustments to that comp exceeded 15% net or 25% gross. This requirement for commentary was based on the concept that the best comp is typically the one requiring the fewest adjustments. In other words, the intention was for the appraiser to explain how the differences impacted the comp selection and weighting.

The letter presents evidence that, unfortunately, the policy had the unintended effect of suppressing adjustment rates. Under pressure from rules-based hard stops in appraisal review systems or other feedback loops from clients, many appraisers fell into habits that resulted in artificially low adjustment rates.

As old habits die hard, we are concerned that a tendency towards under-adjustment persists. In fact, we have written about evidence of under-adjustment several times in prior editions of this newsletter. *Selling Guide* policy requires appraisal adjustment rates to reflect the true market reaction to the differences between subject and comp based on analysis of market data.

Date of sale for comparable sales

The letter also discussed issues related to comp date of sale. For example, we require appraisers to comment when a comparable sale sold more than 12 months prior to the effective date of the appraisal. Similar to the former net and gross adjustment policies, the intent of this policy is for the appraiser to explain the tradeoffs in terms of comp selection and weighting but not to prevent use of older sales when relevant.

The best and most appropriate comparable sales are not always the most recent sales. It may be appropriate for the appraiser to use a 9-month-old sale with a time adjustment rather than a 1-month-old sale that requires multiple adjustments for other differences.

[Lender Letter LL-2015-02](#) is a classic example of how appraisal policies and practices can be improved through analytics. We invite our readers to take a fresh look at it.



Find Fannie Mae Answers Fast

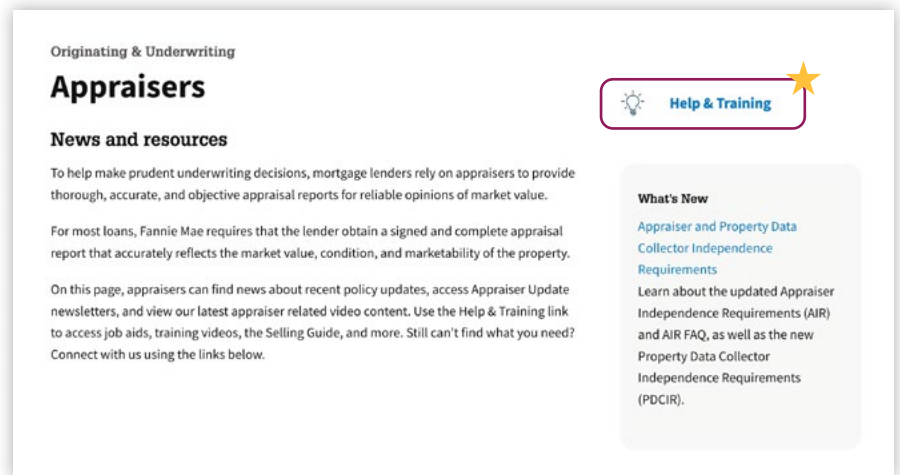
Ever have a question about Fannie Mae policy and don't know where to get the answer? While there are many real estate appraisal policy sources online, secondhand sources can provide incorrect or out of date information. Here is a guide to Fannie Mae resources that will give you the most reliable, up-to-date information about our appraisal policies.

The Appraisers page, at www.fanniemae.com/appraisers, is tailored to support appraisers and provides a great starting point to many resources for finding the answers you need. We post our most recent appraisal related news, provide links to the Appraiser Update archive, as well as provide a host of other help and training resources.

Scan this QR code to open the Appraisers page and add it to your bookmarks on your favorite portable device.

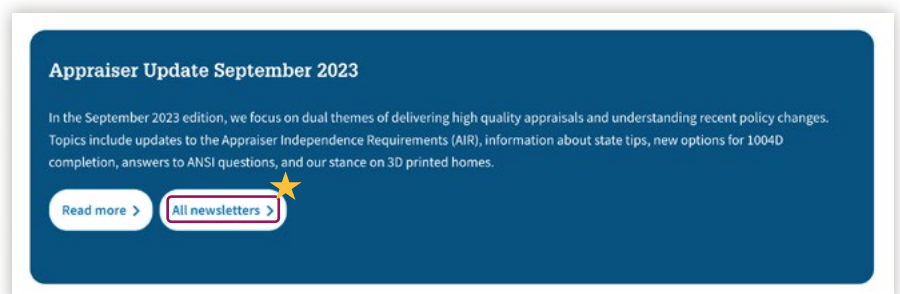


Click the "[Help & Training](#)" link toward the top right of the Appraisers page to open the Appraisers Learning Center. This Learning Center contains links to fact sheets, answers to the most frequently asked questions, and resources for a variety of topics. You can also find a handy link to Fannie Mae's *Selling Guide* near the bottom of the Help & Training page.



The screenshot shows the 'Appraisers' page under the 'Originating & Underwriting' section. The main heading is 'Appraisers' with a 'Help & Training' link highlighted in a red box with a star icon. Below the heading is a 'News and resources' section with three paragraphs of text. To the right, there is a 'What's New' section with a link to 'Appraiser and Property Data Collector Independence Requirements'.

Click the "All newsletters" link to access in-depth information and commentary available from the [Appraiser Update Archive](#). The archive lists and links to every Appraiser Update we have published since 2017.

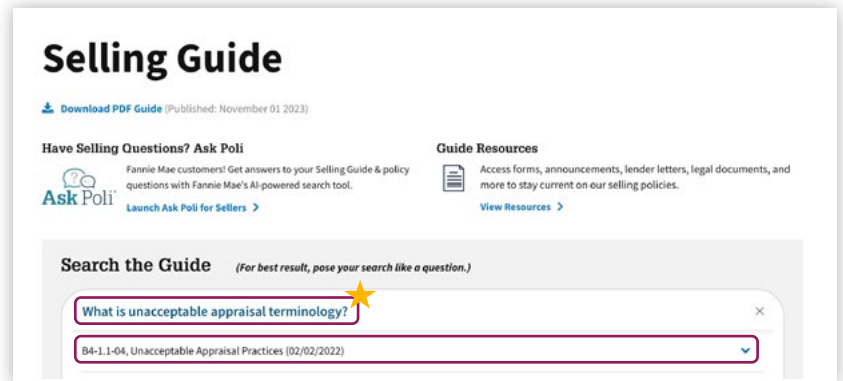


The screenshot shows a blue banner for the 'Appraiser Update September 2023'. It contains a paragraph of text about the update's focus on high quality appraisals and policy changes. At the bottom, there are two buttons: 'Read more >' and 'All newsletters >', with the latter highlighted in a red box with a star icon.



Let's walk through an example for getting an answer from both the *Selling Guide* and the Appraiser Update archive. A question we are frequently asked is, "What is unacceptable appraisal terminology?"

Access the *Selling Guide* from the Learning Center as shown above, and you can type your question with key words into the "Search the Guide" field. Using the question above, the first item that shows up is section B4-.1-04, Unacceptable Appraisal Practices, which lays out our unacceptable appraisal practices, including the use of subjective terminology.

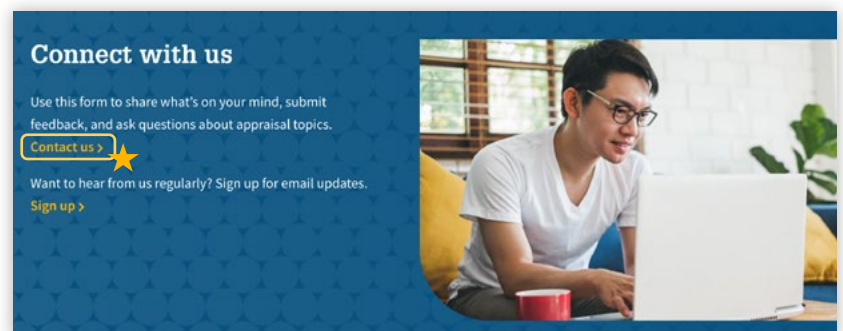


Tip: Always start from the *Selling Guide* link instead of downloading the PDF to make sure you always use the latest version.

To access more information on the topic in our newsletter articles, scroll down the list of topics in the [Appraiser Update Archive](#). In this case you will find "Prohibited factors and subjective terms" in the [June 2023 edition](#), "Improve appraisal commentary with facts, not feelings" in the [December 2022 edition](#), and "Avoiding problematic phrases" in the [June 2021 edition](#).



If you don't find the answer to your question, need some guidance on where to look, or have feedback for us, use the [Contact Us link](#) at the bottom of the Appraisers page. We welcome the chance to answer your questions and comments on appraisal related topics, and normally reply within two business days.



Policy Update - Manufactured Housing

Are photos of HUD Data Plates and HUD Certification Label required for appraisals of manufactured homes?

Prior to the October 2023 *Selling Guide* update, our policy required appraisals of manufactured housing to include photos of both the HUD Data Plate(s) and HUD Certification Label, if present. Effective as of [the October 2023 update](#), photos of only one of the two are required. Specifically,

- If only one of these is available to the appraiser (either Data Plate or Certification Label), a photo of it will satisfy the *Selling Guide* requirement (note that this applies to each section of the home).
- If neither are available, the lender must obtain either a Label Verification Letter with the HUD Certification Label(s) information or duplicate HUD Data Plate/Compliance Certificate from the Institute for Building Technology and Safety. The lender may also contact the In-Plant Primary Inspection Agency or the manufacturer for the HUD Data Plate information.

If the original or alternative documentation cannot be obtained for either of these, the loan is not eligible for delivery to Fannie Mae.

Ideally, we would like the appraiser to continue to provide the information from, and photos of, both the HUD Data Plate and the HUD Certification Label, but this new policy allows some flexibility when the ideal is not feasible.

Tight housing supplies can increase interest in manufactured housing (MH). Check out the resources on our [Appraising Manufactured Homes](#) web page.

For additional information, see *Selling Guide* [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#).

For more info



Have questions or comments about appraisal topics?

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