



# Appraiser Update

## Periodic updates for residential appraisers serving Fannie Mae customers

2020 has been an unforgettable year in so many ways. Under difficult circumstances, we've all had to adapt. Our deepest sympathies go out to those who have suffered the loss of a loved one or any of the physical, emotional, or economic hardships resulting from these challenging times.

It is genuinely a relief to wrap up the year with some relatively mundane tips, clarifications, and myth busters in our Q4 Appraiser Update. We hope for a return to better times and that this update will be a good resource for our readers.

We wish you and your loved ones all the best this holiday season.

Collateral Policy Team  
Fannie Mae

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## COVID-19 appraisals: No assumptions

In March 2020, we provided temporary appraisal flexibilities in [Lender Letter LL-2020-04, Impact of COVID-19 on Appraisals](#). One change was the removal of certification 10 from the appraisal report in recognition that there may be scenarios where an interested party is the only available source for some subject property data. One thing that did not change is this part of certification 2: “I reported the condition of the improvements in *factual, specific terms* . . . ”

When using the temporary flexibilities, we encourage appraisers to communicate with homeowners and/or agents to fill in any gaps in the descriptive information needed to perform the appraisal and comply with certification 2. For example, the appraiser cannot assume that the condition is “average” or “similar to the exterior of the home.” Whether completing an exterior-only or a desktop appraisal, the appraiser must have a current data source for each relevant characteristic, including interior condition.

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Obtaining and reporting that information, whether it be from homeowners or sources such as photos, is not only encouraged, but required. Clear disclosure in the report of the appraiser’s source(s) of property characteristics is essential for avoiding quality control issues after delivery of the appraisal report. See the [COVID-19 Selling FAQs](#) for more information.

## Why should value rep and warrant relief matter to appraisers?

Representations and warranties, or reps and warrants (R&W), are the assurances that lenders make to Fannie Mae affirming that the loans they originate and sell to us comply with our requirements. The lender contract gives Fannie Mae the right to require lenders to buy back, or *repurchase*, loans that violate our policies. Repurchases are problematic for lenders, something they very much wish to avoid.

For some loan transactions, we grant lenders freedom from R&W on property value, reducing their repurchase exposure. One way for lenders to obtain value R&W relief is through Collateral Underwriter® (CU®), Fannie Mae’s proprietary risk management application. CU analyzes many aspects of the property and the market in calculating a risk score for the appraisal. Lenders are granted relief when the risk score is less than or equal to 2.5 (on a scale of 1 to 5, with 1 indicating lower risk and 5 indicating higher risk). Check out [Fannie Mae’s Representations and Warranties Framework Summary](#) for additional context.

So why should appraisers be concerned about reps and warrants? Simply said, value R&W relief is a win-win for you and your client. The lower the risk score, the less likely the appraiser will get a revision request. Appraisers who consistently deliver low-risk, high-quality reports can expect repeat business from satisfied customers.

How can the appraiser improve the chances of value R&W relief? First, be aware that value is one of the key drivers of risk. When the appraiser’s opinion of value is consistent with the preponderance of data in the local market, that tends to lower the risk. Consider the big picture and the broader data set.



Second, avoid unforced errors — double check the report for typos and other factual mistakes. Appropriately rate the quality and condition of both the subject and comparables following the [Selling Guide Q & C definitions](#).

Third, use quantitative analysis to derive adjustment rates; don't *guess* and don't downplay factors that matter to buyers and sellers.

Fourth, report the comparable sales that naturally require fewest adjustments — don't let arbitrary rules limit the comparable selection (see the articles in this edition on Recent Sales and in a previous edition on [The myth of the one-mile rule](#)).



## The one-mile myth: Vanquished!

It's a longstanding myth that comparable sales used in an appraisal report must be within one mile of the subject property. That myth has been vanquished by the Noble Appraiser, who is spreading the word that the best comparables are chosen using facts and data.

Meet the Noble Appraiser, see how the one-mile myth has been vanquished, and watch for more videos coming soon in the Noble Appraiser series.



# The myth of “recent sales only”

Have you ever received a revision request to provide two comparable sales that closed within the past three months? You knew this was coming because the property is unique and the only similar sales to the subject are older. You explain this to your client only to be told: If you don't provide these comparable sales, Fannie Mae won't buy the loan. The belief that appraisers must provide only current sales is a *myth*, and one that continues to cause angst for lenders and appraisers.

The Fannie Mae *Selling Guide* does not specify any time frame for comparable sales because a single factor alone does not produce a credible result. A time adjustment may be easier to derive, understand, and defend than multiple adjustments across a variety of

characteristics (e.g., location, view, quality, condition, living area). A credible report weighs the tradeoffs and minimizes the number of subjective adjustments by choosing sales with overall similar marketability.

In the best-case scenario, an appraiser will have very recent sales that are similar across the board. However, appraisers often do not have that luxury, which is when their sound judgment and analytics can shine. As discussed in prior newsletter articles, including [Meaning of comparable](#) and [The myth of the one-mile rule](#), there must be balance to achieve credible results.



# Accessory Dwelling Unit updates in the *Selling Guide*

Fannie Mae recently updated the Accessory Dwelling Units (ADU) provisions of the *Selling Guide* ([B4-1.3-05, Improvements Section of the Appraisal Report](#) and [B2-3-04, Special Property Eligibility Considerations](#)). These changes refine the ADU definition to help appraisers distinguish them from other property types. Key characteristics include independent ingress/egress, functional utility (living, sleeping, cooking, and bathroom facilities), kitchen requirements (must contain cabinets, a countertop, a sink with running water, and a stove or stove hookup; hotplates, microwaves, or toaster ovens are not acceptable stove substitutes), and must be on the same parcel as the primary one-unit dwelling.

Our expectations for treatment of gross living area (GLA) and highest and best use analysis are also clarified. Further, loans on properties with real property manufactured housing (MH) ADUs are now eligible for delivery to Fannie Mae if all other MH requirements in the *Selling Guide* are met.

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In addition to refining the ADU definition, we modified our requirements for comparable sales, demonstration of marketability, and treatment of illegal zoning. The appraisal report must include an analysis of the effect of the ADU on value or marketability. Aged settled sales, active listings, or pending sales with similar ADUs may be used to support the analysis. In the case of an ADU not allowed under zoning, we reduced our requirement for the number of comparables with the same non-compliant zoning from three to two. There are some additional important details in the *Selling Guide*; appraisers should familiarize themselves with the requirements.

Click on the links above to get the full scoop on ADU updates.



# Clarifications to project standards policies

Fannie Mae recently announced clarifications to condo and co-op policies regarding condotels and transient use, as well as projects subject to pre-litigation activities or recreational leases. Appraisers play an important role in helping lenders comply with these policies by identifying and reporting facts that suggest a project may be operating as a condotel or transient use project as well as other characteristics that could render a project ineligible under Fannie Mae requirements. When appraisers have knowledge

relevant to project eligibility for Fannie Mae, the appraiser must report it. Lenders must not pressure the appraiser to remove material facts on condotel activity or other project eligibility issues from the appraisal. More information on our recent changes can be found on the [Condo, Co-Op, and PUD Eligibility page](#), including the recent *Selling Guide* announcement, a video explaining project standards policy updates, and more.



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