Fannie Mae

DEC 2022

Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our December 2022 Fannie Mae Appraiser Update. In addition to the normal challenges that come with the profession, appraisers today are grappling with new headwinds, including concerns about bias and decreases in volume due to rising interest rates. Understandably, some may feel negative emotions like anxiety, fear, or frustration. One theme in this newsletter is how to overcome emotionality (subjectivity) by increasing factuality (objectivity).

At such times, it is helpful to reflect on the big picture. The mortgage business has always been cyclical — this is not new. At Fannie Mae, we greatly appreciate our partnership with appraisers. You help us fulfill our mission through prudent risk management, and we look forward to continuing that partnership.

We hope the information in this newsletter is a useful resource to help you succeed. Please use the Contact Us link at the end to tell us what you would like to see in future newsletters.

Wishing you and your loved ones happy holidays!

Collateral Policy Team
Fannie Mae

In this issue

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Verification tips for desktop appraisals

When performing a desktop appraisal, the appraiser may obtain subject property information from a party who has a financial interest in the sale or financing of the property. Certification 10 requires the appraiser to verify such data from a disinterested source.

Of course, appraisers know the obligation to verify is nothing new — what is new is the specific application of the principle to our new desktop appraisal policy launched in March 2022. This article provides some tips on how to accomplish it.

Tip 1: Identify whether the source is an interested or disinterested party.

In some situations, the true source may not be obvious on the surface. For example, a floor plan contained in marketing materials may actually have come from a disinterested third party. Many floor plans today are generated by smartphone apps, commonly referred to as 3D scans. The output is controlled by the software providers, who are not interested parties to the transaction. In other cases, the house may have been measured by a previous appraiser or a third party performing a property data collection service. In these scenarios, since the floor plan comes from a disinterested party, Certification 10 would not apply.

Tip 2: Contrast information from interested parties against other sources.

Appraisers are **not** required to recreate the information, only to verify it through a disinterested source. Spot-checking key characteristics against a variety of sources can help the appraiser (and the recipient of the report!) gain confidence in the reliability of the interested party as a source.

Limiting Condition 3 lists several examples of disinterested sources, such as tax assessment records, surveys, satellite imagery, or property data services. Building a logical chain by cross-checking data against multiple sources is a great way to validate.

For example, when the interested party asserts the property has been remodeled, in some jurisdictions the appraiser can cross-check against building

permits or assessor records. Also, the appraiser may be able to contrast various vintages of photos from aerial or street-level photo repositories.

Another possibility is for the appraiser to see the property through a remote viewing application or virtual meeting app. Real estate agents use this method to show properties to prospective buyers and will likely be willing to provide a live remote inspection for the appraiser.

Tip 3: In case of a conflict between various sources, determine which is the best fit for the evidence.

Which record is more reliable? This is where those detective skills become critical, where the appraiser justifies Limiting Condition 3, that they "have used only the data he or she considers reliable."

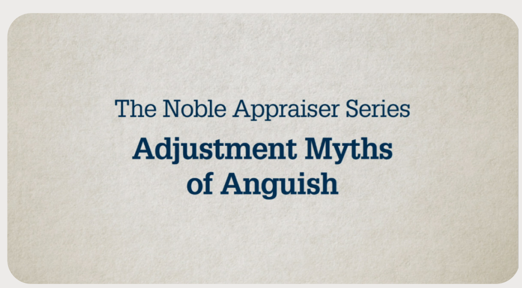
Let's imagine, for example, that the GLA in MLS does not match the public record. Often, the appraiser will be able to figure out which is more correct by comparing the floor plan to the photos and examining the angles and dimensions of the exterior walls. Where the appraiser has experience in subdivisions with several repeat builder models, that experience can also help to resolve discrepancies.

Tip 4: Disclose, disclose, disclose.

Of course, the appraisal report will be read not only by the client and intended user but also by the borrower and by risk investors. These many audiences may have widely varying levels of understanding of housing markets and the appraisal process. Appraisers should help the reader by describing specifically and transparently how Limiting Condition 3 and Certification 10 influenced the results. For example, the appraiser could list all data sources that were considered and identify which are interested parties. The appraiser can explain how disinterested sources were used to validate, list any cases of discrepant data, and explain how the appraiser resolved discrepancies. Opening up the thought process to the reader can help boost the credibility of the report.

Please see the accompanying article "Don't fear third-party data" in this newsletter for additional insights around data verification.

Reminder: Appropriately explained adjustments are a must for every assignment. Take a moment to watch our [Adjustment Myths of Anguish]() video to learn about adjustment myths and tips on providing meaningful adjustment commentary.



Don’t fear third-party data (1004 Desktop Limiting Condition 3)

A common concern we hear from appraisers is about using third-party data in desktop appraisals; specifically, what is the risk to appraisers in relying upon third-party data, and are appraisers expected to validate such data?

It is important to recognize that appraisers have long used third-party data routinely. For example, every time an appraiser uses real estate multiple listing services, they rely on photos, measurements, and other data from a third party. Often appraisers use tax records, surveys, inspection reports, satellite imagery, and more — all from third parties. Appraisers can use third-party data with confidence by analyzing its reliability in the context of the body of information available in the normal course of business.

Limiting Condition 3 from Form 1004 Desktop sets forth the same concept. It says:

> “The appraiser has relied on data provided by third parties in this appraisal report. Such data may include, but is not limited to, flood maps, multiple listing real estate services, tax assessment records, public land records, satellite imagery, virtual street views, property data services, surveys, engineering reports, and property data aggregations. After examination of the data and data sources, the appraiser has used only the data he or she considers reliable. The appraiser assumes there are no material omissions and makes no guarantees, express or implied, regarding the accuracy of this data.”

Similarly, Certification 2 of Form 1004 Desktop states that the appraiser is not expected to “perform a personal visual inspection of the subject property,” instead, “relying on subject property information from third-party data sources.”

These statements should reassure appraisers about their risk exposure in using third-party data, but appraisers still have a professional obligation to analyze the data for accuracy and resolve any significant discrepancies. For example, if MLS photos of a possible comparable sale show a two-story colonial, but virtual street views reveal a one-story ranch, the appraiser would conduct further research to discover which data source is correct. The same holds true for data provided for desktop appraisals. If the floor plan provided does not match photos of the subject, appraisers are expected to do further research to resolve the inconsistency. Finally, appraisers should be specific in describing in the report the observations and analyses that led them to conclude that the data used is reliable.

For more tips on how to use third-party data, see our June 2022 Appraiser Update, and check out the About desktop appraisals fact sheet for more information.

Improve appraisal commentary with facts, not feelings

Fannie Mae conducts appraisal text scanning reviews to identify the presence of subjective terminology, including, but not limited to, the terms found in [*Selling Guide* Section B4-1.1-04, Unacceptable Appraisal Practices].

One exception to the use of words and phrases that are otherwise considered subjective is when the word is part of a property noun, such as the name of a place, street name, city, or a legal description of the property. For example, "good" and "boring" are generally unacceptable subjective descriptions, but if the property is located on Good Street in Dallas, Texas, or in the city of Boring, Oregon, then their usage is objective and acceptable as part of the place names.

We recently scanned millions of appraisals from 2021 – 2022 for subjective terms. After removing place names and similar exceptions, we found that three of the most common subjective phrases used by appraisers are: **desirable location**, **desirable neighborhood**, and **good neighborhood**.

The best option is to always communicate factual and objective insight in the commentary fields.

Whether a location is "desirable" or not is a subjective idea. Homeowners may consider property location and neighborhoods differently. For example, the fact that a property is near a high traffic area should be included in an appraisal. While one homeowner may find it "desirable" for a quick commute to work, someone who works from home may view the same property as "less desirable" because of the noisy freeway traffic. Using terms like "desirable" or "good" may lead one to question the quality of the appraisal if the reader's feeling about the location or neighborhood doesn't match the appraiser's.

The best option is to always communicate factual and objective insight in the commentary fields to keep any reader of the appraisal focused on the facts and not blurred with ambiguous, subjective comments. This approach is a win-win scenario for both the appraiser and users of the appraisal because it clearly communicates a straightforward view of the appraised property.

For more info

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