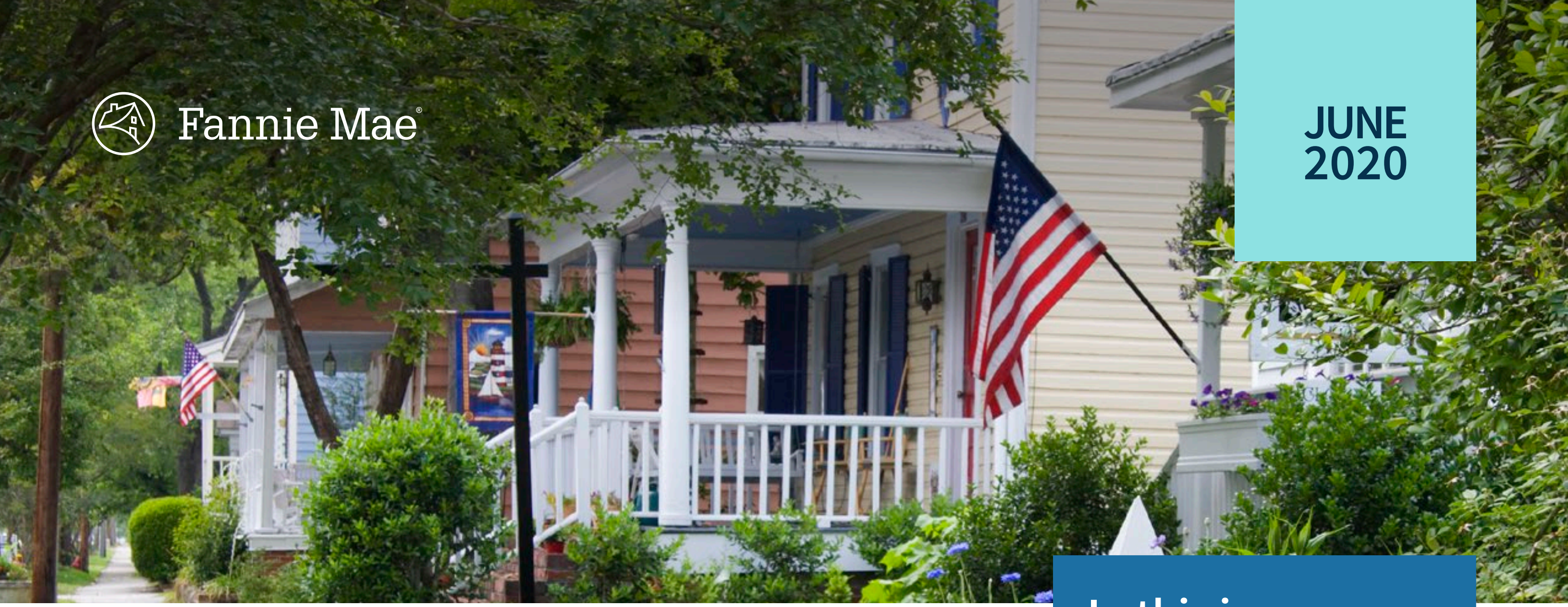
Fannie Mae

JUNE 2020



Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae lender customers

So much has changed since our last newsletter! The topic on everyone's mind is the pandemic, so this quarter we're sharing observations on the implementation of the COVID-19 appraisal flexibilities. Spoiler alert: Appraisers have done a great job maintaining quality despite limitations to the traditional scope of work. We also outline recent changes to the *Selling Guide*, highlight the new continuing education class on manufactured housing that we developed with McKissock, and editorialize on a classic topic — distance to comparables. Lastly, we continue our series of mailbox questions with one about flood zones.

As the appraiser's task becomes more challenging, we aspire to be a useful resource to help you succeed. Please let us know what you would like to see in future newsletters.

Collateral Policy Team
Fannie Mae

In this issue

Interested in receiving this newsletter and other periodic appraisal-related updates?

Sign up now!

Reflections on the impact of COVID-19 on appraisals

Three months ago, we issued **Lender Letter LL-2020-04, Impact of COVID-19 on Appraisals**, to provide temporary guidance on appraisal requirements. This guidance allows desktop and exterior-only appraisals for many mortgage transactions so that appraisers do not have to personally inspect the home, decreasing physical contact between appraisers and homeowners. Below are a few observations on how appraisers have delivered on those flexibilities.

Through mid-May, about 15% of Uniform Collateral Data Portal® (UCDP®) appraisals completed after our announcement used the flexibilities, either desktop or exterior-only. As you know, circumstances vary widely across the country, and the uptake of the flexibilities reflects this. The highest percentages of appraisals using the flexibilities are around 40% in some northeastern states, while the lowest percentages are around 10% in some of the less impacted states.

Despite the huge challenges faced during this health crisis, appraisers have done an outstanding job of executing to keep the U.S. housing market moving.

We recognize it is challenging to execute changes to the traditional scope of work that we have required for many years. For example, reliance on homeowners or agents for descriptions of the subject property requires appraisers to analyze and disclose differently than they normally would. Also, copying and pasting the modified scope of work, limiting conditions, and certifications into the existing forms and repurposing the map reference field is not the most elegant solution. We opted for this manual process for speed; creating a technology solution would have taken many months — a luxury we did not have in the face of a fast-moving health crisis.

This experience highlights the benefits of having more flexible appraisal options to meet varying circumstances as opposed to our historic reliance on a rigid, fixed scope of work. The **Uniform Appraisal Dataset (UAD) and Forms Redesign Initiative** that we have undertakenwith Freddie Mac aims to deliver a more dynamic structure for appraisal reporting that we hope will serve the appraiser profession well in the future.

Despite the huge challenges faced during this health crisis, appraisers have done an outstanding job of executing to keep the U.S. housing market moving. We found that appraisers have used the flexibilities correctly about 90% of the time. Appraisers have done a great job identifying external obsolescence for desktops and exterior-only appraisals, as well as leveraging their local knowledge, maps, aerial photos, and other data sources. We've been pleasantly surprised to find that, although not required, about 35% of nontraditional reports include a sketch pulled from prior reports, assessors records, or other sources. Also, the supporting comments in the nontraditional reports have been even better on average than those in traditional reports.

Thank you for your dedication to excellence and for partnering with us to get through this crisis!

Selling Guide update

We have clarified the *Selling Guide* to state that whole numbers are required for the Predominant Age and Predominant Price fields in our appraisal forms to align with Uniform Appraisal Dataset (UAD) requirements and because the Uniform Collateral Data Portal® will not accept an appraisal report with anything other than whole numbers in those fields (see **[*Selling Guide* B4-1.3-03, Neighborhood Section of the Appraisal Report]**).

The myth of the one-mile rule

Once upon a time there was a story told that all properties on the comparable grid in an appraisal report had to be within one mile. This story was told and retold until many thought it was a rule: If a sold property was within a mile, it was a defendable comparable sale. No one knows where this originated, but the myth continues even today.

A neighborhood can be described as a geographical area in which properties are influenced in a similar way by the forces affecting value and marketability, and these areas have boundaries, lines separating one market or neighborhood from another. Rarely are subject properties located at the center of these boundaries. “Within one mile” means very little, since there are cases when the opposite side of the street could be a different neighborhood or market. Choosing properties with the same locational factors makes all the difference.

How, then, can one support the myth that anything within one mile is a reasonable comparable? Often, the best comparables are much closer than one mile. In other scenarios, like rural or unique properties, it may make sense to use comparable sales much farther than one mile. Adept appraisers use data, not fiction, to determine the most appropriate comparable sales. There are tools that help users of the appraisal understand the boundaries that separate one market from another.

All appraisers are bound very clearly by the Uniform Standards of Professional Appraisal Practice (USPAP) to provide credible assignment results and not mislead. Understanding how the typical buyer reacts, and communicating that understanding based on fact, is the basis for providing credible results. Appraisers must support cases when they are compelled to use properties in markets that are not the same as the subject.

Choosing properties with the same locational factors makes all the difference.

The moral of the story: Rely on data, not myths about rules, to choose the best comparable sales for your appraisal. Clear explanations of why those comparables were chosen — as well as clear explanations of the market area — help ensure that appraisers provide credible results, which is the perfect ending of a good appraisal story.

Fannie Mae collaborates with McKissock on manufactured housing continuing education course

Manufactured housing (MH) can be an attractive, affordable alternative to site-built homes. New options like Fannie Mae's MH Advantage® represent innovation in manufactured housing designed to meet certain construction, architectural design, and energy efficiency standards that are more consistent with site-built homes. MH Advantage features include lower profile foundations, distinctive roof treatments, attached garages or carports, porches, and upgraded interior/exterior features and materials.

Appraising MH homes can pose unique challenges. To help increase appraiser understanding of our requirements, Fannie Mae collaborated with McKissock Learning to develop an appraiser continuing education course titled "Appraising Today's Manufactured Homes." The course covers:

- The history of manufactured housing.
- MH Advantage appraisal requirements and forms.
- Market approach.
- Comparable sale selection.
- Cost approach.
- Condition and quality ratings.
- Valuation strategies.
- Case studies on appraising MH Advantage homes.
- Techniques for developing and supporting adjustments, including match pairs.
- Fannie Mae *Selling Guide* requirements for standard manufactured and MH Advantage homes.
- Best practices.

Appraisers can learn about these topics at their own pace by successfully completing the 7-hour online continuing education course. Visit **info.mckissock.com/appraising-todays-manufactured-homes** to learn more.

Appraiser Q&A: Flood zone, yes or no?

We recently received a question regarding flood zones via the Contact Us option on the Fannie Mae **Appraisers page**:

"The property in question has a small flood plain on the lot, nowhere near the improvements, which are high on a hill. I have reported Zone AE and checked 'Yes' in the box on the report. The lender has provided a certification stating the improvements are not in the flood zone and wants the report revised to 'No.' Is the Site section of the appraisal about the real estate (lot) or the improvements?"

The Site section of the Fannie Mae appraisal report forms calls for the appraiser to indicate whether the property is in a designated Special Flood Hazard Area per the FEMA Flood Insurance Rate Maps. The appraiser must check "Yes" when **any** portion of the site is in a FEMA Special Flood Hazard Area.

In the case above, the appraisal report was correct and should not be changed. However, it would be prudent for the appraiser to explain in the report that a portion of the land is in the flood zone, but the lender has provided a certification showing that the improvements are not.

Ultimately, the lender determines if the subject property needs flood insurance, and the lender has resources beyond the appraisal to help make that determination. The important thing for the appraiser is to factually describe and consider the impact of the flood zone on the value and marketability of the subject property.

See ***Selling Guide* B4-1-3-04, Site Section of the Appraisal Report** for more.

For more info

Have questions or comments about appraisal topics?

Contact us

Access newsletters, training, and other resources.

Visit the Appraisers page