

Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae lenders

Welcome to our June 2021 Fannie Mae Appraiser Update. In this edition, we discuss the importance of appraisals in the lending process. Spoiler: It's not just about value. We also describe how our Appraiser Quality Monitoring (AQM) process works, sharing some perspectives about state tips and AQM letters to appraisers. Finally, as media reports of racial bias in appraisals increase, we discuss some problematic words and phrases and their implications.

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

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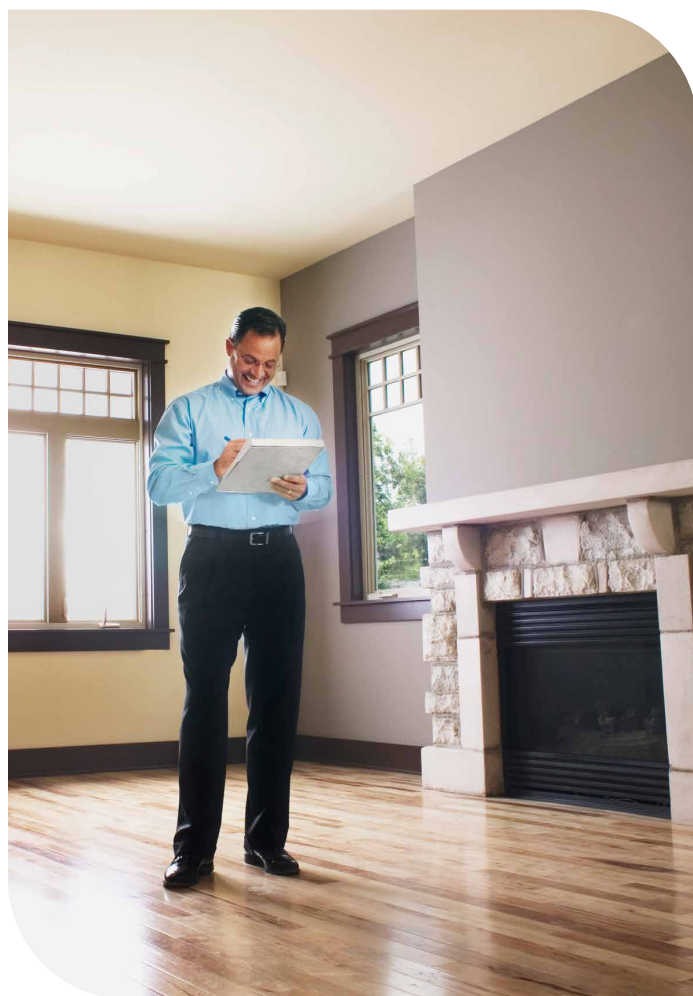
Two fundamental roles of the appraiser in the lending process

Appraisers may not realize all the ways their reports can impact their clients once the appraisals leave their desk. Lenders rely on appraisals not only for valuation, but also to assist in determining property eligibility and *Selling Guide* compliance.

The primary role of the appraiser in the mortgage lending process is, of course, to provide a professional opinion of the value of the collateral for the loan. The pricing that Fannie Mae offers to lenders is tied to risk factors, including the loan-to-value ratio. Think about that: The value is the denominator in the key metric the mortgage industry relies on to price risk. The lender knows the loan amount, but appraisers provide the value. If the value is not adequately supported, as outlined in our *Selling Guide*, we may misprice the risk associated with the loan. This is a concern not only for Fannie Mae, as mispriced risk makes our business less sound, but also for our credit risk investors and for the U.S. taxpayers who back our risk.

Mispriced risk can be costly for the lender also. Fannie Mae issues loan repurchase demands to our lender partners for non-compliance with our *Selling Guide*, which can result in either a repurchase or a pricing adjustment.

The second role of the appraiser in the mortgage lending process is to assist the lender in determining property eligibility by accurately reporting property characteristics. If the appraiser doesn't help the lender identify issues via an accurate report, lack of eligibility could become very expensive for the lender to remedy.



The appraisal is a critical source for both the opinion of value and the property characteristics of the subject. By carefully providing this information to their lender clients, appraisers are key partners in Fannie Mae's mission to provide liquidity to the housing market safely and soundly.

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Avoiding problematic phrases

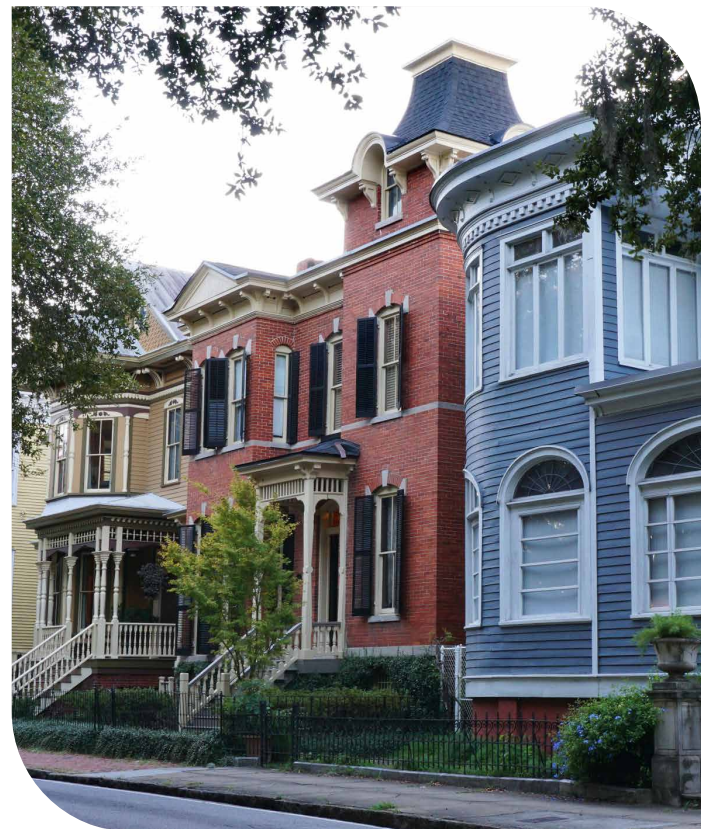
Stories in the media about racial bias in appraisals have been on the rise. The Uniform Standards of Professional Appraisal Practice (USPAP) expects appraisers to “not perform an assignment with bias.” But how? Beyond choosing comparables that best match the property’s physical and transactional characteristics, there are many areas of focus to reduce bias. In this article, we highlight one: what commentary to include in the report.

While appraisers may not intentionally factor race, gender, or other protected class information in the valuation, some words or phrases can undermine the credibility of the appraisal by implying that demographics influenced the outcome. Readers may perceive certain subjective words as proxies for demographic composition.

Even if there is no bias on the part of the appraiser, the words used can still influence the bias of the reader. Appraisers should avoid using words that lend themselves to bias judgments. Instead, the appraisal report should document objective facts.

For example, while describing a neighborhood as “desirable” sounds like a good thing, it’s really a subjective judgment. What makes one neighborhood more desirable than another depends on the needs and wants of the purchaser.

Instead of describing an area based on subjective labels, the appraiser should document the features of the neighborhood. The table on the next page includes some examples. Phrases in the first column are subjective evaluations that can be replaced with objective descriptions such as those shown in the second column.



Problematic phrase

Objective description

<p>Desirable neighborhood Different families have different needs, which change what they will see as “desirable.”</p>	<p>List the neighborhood’s features or amenities that potential buyers would find of value. For example: Newly updated neighborhood swimming pool.</p>
<p>Crime-ridden area Crime-ridden is a subjective assessment. All locations can experience some crime. Where does one draw the line between “ridden” or not?</p>	<p>“The crime rate in this area is x%” is objective and allows the reader to make their own judgment about the potential impact of crime.</p>
<p>Affordable neighborhood While some may have enough to purchase this property, others may find it is outside what they can afford.</p>	<p>State whether the valuation of the property is aligned with the price range of the neighborhood.</p>
<p>Integrated community Language pertaining to demographic composition, whether subjective or objective, should not be included.</p>	<p>The valuation should focus on the property, not the residents.</p>

Appraising MH? Or do you want to?

With tight housing supplies, there is increasing interest in manufactured housing (MH). Could you use a refresher on our requirements for appraising MH? Or would you like to explore opportunities to appraise MH? We’ve got you covered. Check out the many resources on our [Appraising Manufactured Homes](#) web page.

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AQM letters and state tips

Even if you haven't received a letter from Fannie Mae's Appraiser Quality Monitoring (AQM), you've probably heard of others receiving one. Seeing a letter from Fannie Mae in your mailbox may seem scary, but that is not the purpose. The AQM process identifies appraisers whose appraisal reports exhibit a pattern of inconsistencies, inaccuracies, or data anomalies. The intent and expectation of communicating these issues to appraisers is for training and educational purposes — and to provide them with an opportunity to improve their work. Let's unpack the different types of letters, what they mean, and what you should do if you get one.

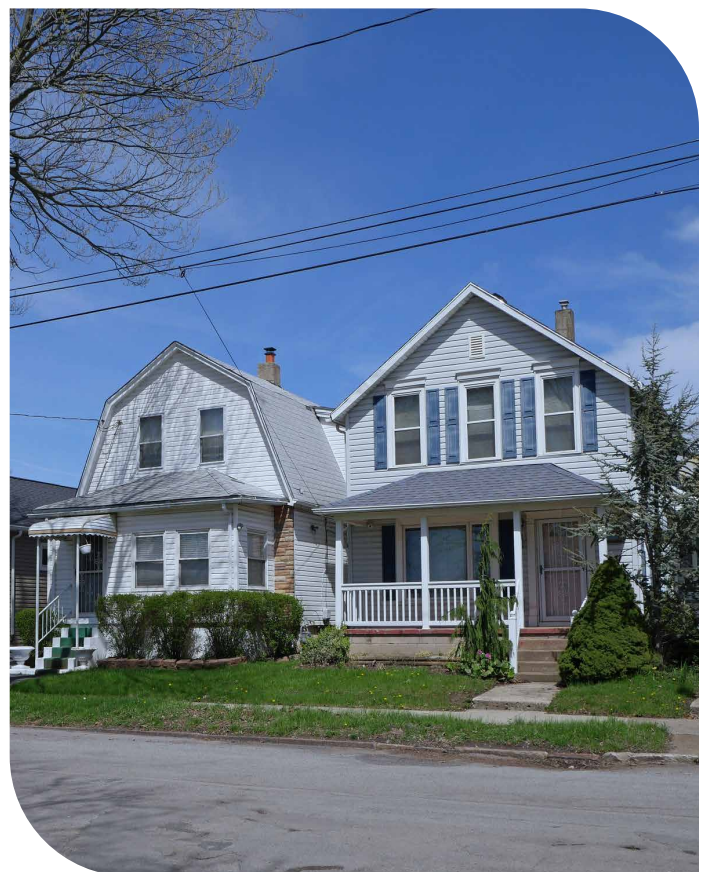
AQM letters fall into two general categories. The first type provides feedback and is instructional in nature. Fannie Mae sends them when we find a pattern of possible appraisal issues — for example, when 95% or more of an appraiser's reports rate the subject "Q3." While it is possible that most of the properties appraised fell into this category, it is unlikely. Feedback and instructional letters from Fannie Mae are sent because we need an accurate, absolute determination of property details. Appraisers are not required to respond to these types of letters, but we do welcome your feedback. We continue to monitor the appraisals of recipients of these letters until we see improvement in their body of work.

The next category of AQM letters are sent in response to more egregious issues. The first of these types of letters includes detailed information about material deficiencies in several reports. Types of deficiencies include patterns such as misreporting physical characteristics or using inappropriate comp selection, resulting in value inflation. If the appraiser does not respond or demonstrate improvement, then we put them on our 100% review list and notify them via letter. The appraiser should respond to these letters within 30 days to explain or provide a plan to improve.

The strongest letter an appraiser could receive from AQM notifies the appraiser we will no longer accept their appraisals. For example, people who have revoked licenses may receive this type of letter.

We also occasionally provide tips to state boards when we find appraisals with severe deficiencies. The goal is to provide the states with actionable information to help improve the quality of appraisers and appraisals in their states. While it is possible that a tip may lead the state to investigate and determine that a severe disciplinary action is needed, we have seen many cases where mentorship, additional instruction, or continuing education resulted from the investigation.

AQM letters and state tips are intended to strengthen and improve the integrity of the profession. If you receive one of these letters, please let us know your thoughts. We hope our feedback is constructive, and we highly value your feedback, as well.





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