

Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our June 2022 Fannie Mae Appraiser Update. In this issue, we touch on some of the ways Fannie Mae partners with the appraiser profession to ensure that appraisals comply with our policies.

You've had questions on the use of third-party data in desktop appraisals, so we share some thoughts on that topic.

Our Appraiser Quality Monitoring (AQM) team communicates directly with individual appraisers, sharing observations and insights into how the appraiser can improve the quality of work. We explain several types of AQM letters and highlight recent changes to our AQM frequently asked questions.

Speaking of FAQ, this edition includes a handy set of links to fact sheets and FAQs. Several have been recently updated. And we introduce the latest Noble Appraiser video about the benefits of performing desktop appraisals.

We love hearing from you — you can submit feedback or ask questions about appraisal topics using the link at the bottom of this newsletter.

Collateral Policy Team
Fannie Mae

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Use of third-party data in desktop appraisals

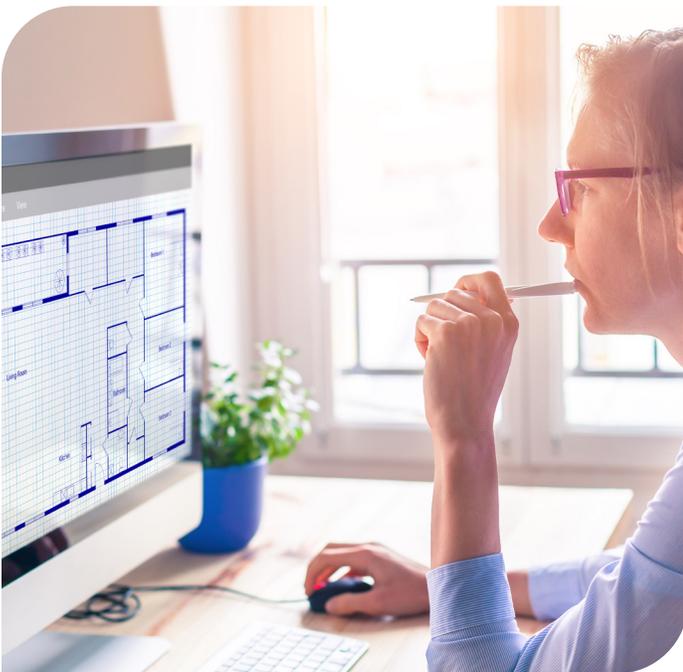
For a desktop appraisal assignment, the appraiser does not physically inspect the subject property. Instead, they rely on alternative data sources to describe the subject. With the incorporation of desktop appraisals into the *Selling Guide*, we have seen an increase in questions about how appraisers should use third-party data.

For example, our desktop appraisal requirements include the same photo exhibits as for traditional appraisals, along with a floor plan to help appraisers understand the functional utility of the home. These exhibits will typically be obtained from third parties. To better understand the obligations around verification and use of such information, the *Selling Guide* provides some guidance on this topic, specifically in [B4-1.2-02, Desktop Appraisals](#) (click the link to read the full section of the *Selling Guide*).

“Subject property information may be obtained from one or more data sources. The appraiser can accept data, photos, floor plans, and other information from a party who has a financial interest in the sale or financing of the property if the appraiser verifies such data from a disinterested source. The appraiser must determine if the information is accurate and reliable to produce a credible report, which includes the features, quality, and condition of the subject property.

Our desktop appraisal requirements include the same photo exhibits as for traditional appraisals, along with a floor plan to help appraisers understand the functional utility of the home.

Virtual inspection methods (including digital photos or videos) or other technological solutions (such as a machine-generated floor plan) can augment the data and imagery used for a desktop appraisal. Information provided by the homeowner, potential borrower, or a third party can be used to develop the description of the interior and exterior of the improvements. Extraordinary assumption(s) or appraisals made ‘subject to’ verification of the subject property’s condition, quality, or physical characteristics are not permitted.”



Extraordinary vs. ordinary assumptions

In September 2019, we published an article in this newsletter titled “[Desktop appraisals, assumptions, and hypothetical conditions](#).” To quote from that article, “An extraordinary assumption can be used to manage uncertain information that, if found to be false, could alter appraisal results. The Uniform Standards of Professional Appraisal Practice (USPAP) states that extraordinary assumptions are assignment specific.” Appraisers do not normally employ extraordinary assumptions when relying on MLS or public records, even though they are inherently uncertain. This may be because those sources are used so frequently that an assumption of reliability would be general, not assignment specific. Similarly, desktop appraisals generally rely on property data from third-party sources; as this has become common practice, assumptions related to the usage must be categorized as general, not assignment specific.

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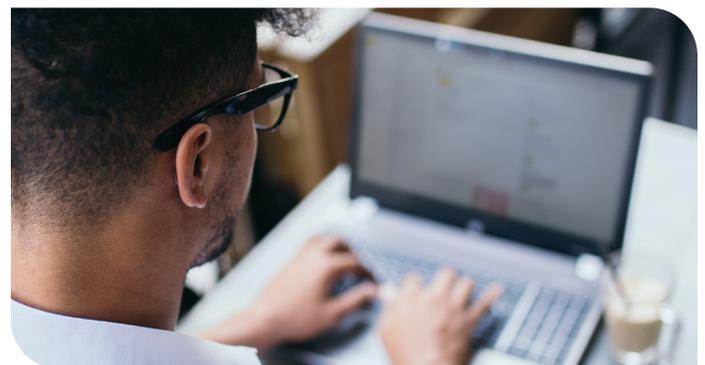
According to USPAP (2020 – 2021) Standards Rule 1-2(e), the appraiser is required to “identify, from sources the appraiser reasonably believes to be reliable, the characteristics of the property that are relevant to the type and definition of value and intended use of the appraisal.” USPAP FAQ 243 goes on to say, “If the appraiser determines that the information contained in the inspection report is reliable and allows the appraiser to identify the relevant property characteristics and develop credible assignment results, then an extraordinary assumption would not be necessary.” While USPAP

no longer defines an ordinary assumption, those of us who have been in this profession long enough will recall that not all assumptions are extraordinary.

Item 3 of the Statement of Assumptions and Limiting Conditions in Fannie Mae Form 1004 Desktop states:

“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.”

This statement helps the reader of the appraisal report to better understand that the appraiser has analyzed third-party data, ensured adequacy, determined reliability, and acknowledged limitations. Appraisers may choose to expand on this statement by describing in detail what specific data sources they considered and how they reconciled inconsistencies. One final note: We do not allow hypothetical conditions around the description of the subject or comparables (except as needed for appraisals subject to completion of construction or repairs).





Verification vs. re-creation

How, then, does the appraiser determine if data is reliable? Certification 10 in the Fannie Mae Form 1004 Desktop describes one of the appraiser’s obligations. It states:

“I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.”

One of the questions in our [About desktop appraisals fact sheet](#) asks: Does Certification 10 allow an appraiser to accept information about the transaction from someone with a financial interest (i.e., homeowner or real estate agent)? The answer is yes, provided the appraiser verifies the information through a disinterested source. We added a note to this answer to clarify that verification should not be confused with re-creation. Appraisers have broad discretion in how they verify and what sources they consult. Examples of verification sources include websites with aerial or street-level photos, floor plans or imagery generated by third-party applications (commonly known as 3D scans), remote viewing through virtual inspection technologies, assessor data, or prior appraisal assignment results.

A note on floor plans generated using 3D scan technology: Regardless of who delivers the floor plan exhibit to the appraiser, the content itself is created and controlled by the software providers who are not interested parties to the transaction. So, the appraiser’s obligation under Certification 10 to verify information from interested parties does not apply. However, the appraiser should analyze them in context of the body of information available in the normal course of business, the same as with any other data.

Watch the Noble Appraiser explore the benefits of performing desktop appraisals in [The Desktop Appraisal Discovery](#).

The Noble Appraiser Series
**The Desktop
Appraisal Discovery**



Appraiser Quality Monitoring update

Appraiser Quality Monitoring (AQM) is a Fannie Mae program that aims to improve consistency, reduce risk, and increase confidence in the appraisal process. There are several facets to AQM.

- Letters sent to appraisers:
 - ▼ Educational letters that provide direct feedback to appraisers on topics for improvement such as compliance with Uniform Appraisal Dataset (UAD) requirements.
- 100% post-acquisition review list and the “no longer accepted” list:
 - ▼ In cases of repeated and egregious appraisal issues, lenders are notified that certain appraisers are being placed on our 100% post-acquisition review list, or on our “no longer accepted” list (meaning Fannie Mae will no longer accept loans with appraisals by those appraisers). Prior to being added to either of these lists, appraisers are notified by letter of our intention to list them. The letter provides a detailed explanation of our concerns and gives the appraiser an opportunity to respond before we take action.
- State regulatory agency referrals:
 - ▼ When an appraisal is found to have deficiencies severe enough to impact eligibility of the loan for delivery, Fannie Mae, at its discretion, may refer the appraisal to the applicable state regulatory agency. Before taking this serious step, we perform multiple layers of due diligence to confirm the findings.

New letter types

AQM has recently introduced two new letters to appraisers. The purpose of both letters is to provide feedback on potential areas for improvement in two very different areas: identification of the appraisal management company (AMC) and certain unacceptable language in appraisal reports.

In January 2022, AQM started sending letters to appraisers when they had not correctly identified the AMC (or lack of AMC) in the Lender/Client field of the appraisal report. UAD requirements specify that, “The appraiser must enter the name of the appraisal management company (AMC) in this field if the appraisal is ordered through an AMC. If no AMC is involved, ‘No AMC’ must be entered.” The most common error was leaving this field blank, followed by using an incorrect version of No AMC or stating None instead. While not using this field does not have an impact on the appraised value, the information is important to Fannie Mae and others.

The [June 2021 Appraiser Update](#) detailed the use of problematic phrases and statements that can undermine the credibility of an appraisal by implying subjective information or demographics influenced the outcome. To increase awareness, AQM began sending letters to appraisers in November 2021, alerting them to the use of such subjective phrases and statements.

Most of these letters detail instances where the appraiser used subjective phrases such as:

- Pride of ownership.
- Good neighborhood.
- Desirable location.



The use of subjective phrases like these should be avoided in favor of objective statements. Describing the amenities and features of a neighborhood is more helpful to the intended user for understanding the appraiser's analysis than saying a neighborhood is "good," for example.

These letters may also highlight language that identified the racial or ethnic composition of the neighborhood including:

- Identifying the percentage of the specific ethnic or racial groups in the neighborhood.
- Providing historic ethnic and migration changes for the area.
- Stating the name of specific businesses and services in the area.

While statements such as these may be factual, any words or phrases that comment on the racial or ethnic composition of a neighborhood, or what

types of families live in the neighborhood, should be avoided. For instance, describing the proximity of an entertainment district, restaurant, or grocery store may be relevant to the appraisal assignment, but identifying it as belonging to a specific ethnic group is inappropriate and not necessary.

Still have questions?

We know there are plenty of questions about AQM, and Fannie Mae published an updated FAQ to answer them.

- Do appraisers have the opportunity to appeal or offer a rebuttal to an AQM letter?
- Are lenders notified when an appraiser receives an AQM letter?
- Does Collateral Underwriter® automatically identify appraisals to be sent to state regulatory agencies?

Find out the answers to these questions and more in the [AQM frequently asked questions](#).





Did you know we continue to update our fact sheets and frequently asked questions?

To the right, see just a few of our appraisal-related documents that have been recently updated. Revisit them regularly or rely on the links below to make sure you are accessing the latest information. Remember that these and many more resources can be accessed from our [Appraisers page](#).

[View the About Desktop Appraisals fact sheet](#)

[View the Standardized Property Measuring Guidelines fact sheet](#)

[View the Appraisal Waivers FAQ](#)

[View the Appraiser Quality Monitoring FAQ](#)

For more info



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