

Appraiser Update

Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our March 2022 Fannie Mae Appraiser Update. Fannie Mae is on a journey to continuously improve how we manage collateral risk. Some key milestones in the past several years include:

- Reinforcing appraiser independence through the Appraiser Independence Requirements.
- Digitizing appraisal reports through the Uniform Appraisal Dataset and Uniform Collateral Data Portal®.
- Risk scoring of appraisals in Collateral Underwriter®.
- Proactive post-acquisition appraisal QC.
- Direct engagement with appraisers by our Appraiser Quality Monitoring team.
- *Selling Guide* changes that shift lender focus away from compliance with arbitrary rules toward an informed validation of the market analysis.

With each milestone, we gain new insights that help us refine the next steps in the journey.

In this edition, we recap our recent research effort to better understand appraisal valuation differences across different racial groups, and we highlight two next steps in our journey: adoption of the ANSI GLA standard and our new desktop appraisal option.

We also talk about the Noble Appraiser videos, designed to be a more entertaining way to address appraiser pain points — and we have a new episode too!

Please let us know if you have questions or comments using the Contact Us button at the bottom of this newsletter.

Collateral Policy Team
Fannie Mae

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Appraising the Appraisal

As a component of our multi-part research effort to better understand appraisal valuation differences across different demographic groups, Fannie Mae recently published a working paper, [Appraising the Appraisal: A closer look at divergent appraisal values for Black and white borrowers refinancing their home](#). Our analysis found:

- Black borrowers refinancing their home, on average, received a slightly lower appraisal value relative to automated valuation models. At the same time, white borrowers refinancing their home, on average, received a slightly higher appraisal value relative to the models.
- Homes owned by white borrowers were more frequently overvalued than homes owned by Black borrowers. Overvaluations of white-owned homes were present at a higher rate in all neighborhoods but had a higher rate among homes owned by white borrowers in majority-Black neighborhoods.
- The frequency of undervaluation did not have a notable racial pattern.
- Six states — Georgia, Louisiana, South Carolina, North Carolina, Mississippi, and Alabama — accounted for nearly 50% of the overvalued homes of white owners in majority-Black neighborhoods.

We analyzed 1.8 million appraisals as part of refinance applications from 2019 to 2020 by comparing the values from these appraisals against two automated valuation models (AVMs). In addition to using the AVM comparisons and studying the distribution of the differences, Fannie Mae's valuation analysts (who are also certified real estate appraisers) manually reviewed a targeted sample of appraisals from the dataset. The internal review results were consistent with the AVM selection of comparable properties and the observations noted for misvaluation.

There are many possible reasons why an appraisal would be either overvalued or undervalued. Fannie Mae and its industry partners should continue to take concrete actions to minimize the chances that the race of a borrower or homeowner is one of those reasons. Those actions include:

- Increasing the use of desktop and hybrid appraisals, which reduce contact between borrowers and appraisers, thus reducing the likelihood of valuations being affected by personal or unconscious biases.
- Continuing to make better use of data, technology, and process design to drive more factual, objective, accurate, and reproducible appraisals.
- Supporting and enhancing efforts to foster diversity in the appraiser workforce.

Read the [working paper](#) for more details.



ANSI required April 1, 2022 — and we're not April fooling

Hopefully you've already heard the news that beginning April 1, 2022, Fannie Mae will require appraisers to use the Square Footage-Method for Calculating: ANSI® Z765-2021 (American National Standards Institute®) for measuring, calculating, and reporting gross living area (GLA) and non-GLA areas of subject properties for appraisals requiring interior and exterior inspections. Apart from the fact that Fannie Mae is requiring this standard, why should appraisers want to comply? You may be surprised to learn that today when we see two or more appraisals of the same property, we find that the GLA often differs by 10% or more. Disputes over square footage may also be the basis for Errors and Omission claims. By adopting a professional standard for measuring, calculating, and reporting the square footage, appraisers make their work more transparent, reproducible, defensible, and credible.

Have you taken a few minutes to read through the [Standardized Property Measuring Guidelines](#) fact sheet that lists other benefits of using the standard? It includes recently added FAQs that address some of the most common questions. Let's walk through a couple of those here.

We are frequently asked whether there is an exception process. If the appraiser is unable to adhere to the ANSI standard, they should enter the code "GXX001-" in the Additional Features field on the appraisal form and explain why compliance was not possible. The simplest explanation of when this exception should be used is when the square footage would be zero if using the ANSI standard. We will not allow exceptions for reasons such as, "My market does not typically use ANSI," or, "I don't want to use the ANSI method." Fannie Mae will monitor appraisals for compliance.

Another common question focuses on the GLA of comparable sales. Appraisers often do not know precisely what methodology was used to establish GLA for properties in local MLS systems or assessor records. Appraisers already routinely deal with this uncertainty regardless of what method the appraiser uses for the subject property. Through research and their knowledge of the local market, appraisers determine if the GLA of the comparable should be adjusted. This process does not change with adoption of the ANSI GLA standard.

Please click the link above and take a few minutes to see more information about this topic. Several continuing education providers already offer classes as well. As always, we welcome your questions and comments — just click the Contact Us button at the bottom of the newsletter.

The Noble Appraiser Series **The Measurement Mayhem**

Watch the Noble Appraiser learn about Fannie Mae's standardized measuring requirements in [The Measurement Mayhem](#).

[Watch the video](#)





What you need to know about desktop appraisals

Fannie Mae is now accepting desktop appraisals for certain purchase loans, so we want to make sure appraisers have the information they need to complete these reports.

One of the common questions is which form to use when completing a desktop appraisal. Appraisers must use [Fannie Mae Form 1004 \(Desktop\)](#) to complete desktop appraisals. Note that this is different from our temporary response to COVID-19, which required appraisers to report desktop appraisals on the standard URAR (by inserting a modified set of instructions, scope of work, statement of assumptions and limiting conditions, and certifications) into the comment addendum. (The appraisal COVID-19 Temporary Flexibilities were discontinued May 31, 2021.)

Appraisers must use [Fannie Mae Form 1004 \(Desktop\)](#) to complete desktop appraisals.

A floor plan exhibit is required for the desktop appraisal. Fannie Mae's *Selling Guide* B4-1.2-01 defines a floor plan as showing interior walls and other details, while a sketch typically only displays exterior dimensions. We are requiring floor plans in desktop appraisals to help ensure appraisers have enough information to assess the functional utility of the home. The floor plan must be software-generated (not hand-drawn) and include the following:

- interior walls,
- doorways,
- staircases,
- exterior ingress/egress,
- labels for each room, and
- dimensions of all exterior walls.

See the Exhibits for Appraisals section of [Selling Guide B4-1.2-01, Appraisal Report Forms and Exhibits](#) for more details. An interesting thing to note is that approximately 30% of the appraisals submitted using the COVID-19 Temporary Flexibilities *voluntarily* included sketches; many of you are already using resources beyond a physical inspection for support!



Of course, the defining characteristic of the desktop appraisal is that the appraiser does not physically visit the property to perform an interior inspection as reflected in Certification 2 of the form. Thanks to modern technology, there are several ways for appraisers to gather what they need to perform these appraisals. Third-party applications are available that can create floor plans using mobile devices or 3D-scan technology. Other virtual solutions are available, such as a video chat in which the appraiser remotely views the property in real time. Floor plan exhibits created by appraisers with their desktop software using dimensions and descriptive information from third-party sources may also be acceptable if the appraiser determines the information is accurate and reliable.

The Form 1004 (Desktop) includes four Appraisal Assignment Type fields in the Additional Comments section. The table below shows you how to provide the Appraisal Assignment Type and supporting details. A “Null” entry means the field is to be left blank.

FIELD LABELS	REQUIRED ENTRY
Appraisal Assignment Type	“DesktopAppraisal”
Subject Property Data Collection Method	“Other”
Subject Property Data Collection Date	“Null”
Subject Property Data Workforce	“Null”

We published the [About desktop appraisals fact sheet](#) in January of 2022 and have since updated it with answers to many of the questions you’ve been asking. Please take a few minutes to read through it, and let us know if you have other questions or comments using the Contact Us button at the bottom of this newsletter.



Who doesn't love the Noble Appraiser?

Our video series featuring the Noble Appraiser is designed to share information about our appraisal policies in a lighthearted and entertaining way.

If you haven't seen the entire series, you can [check it out here](#). Because topics like quality and condition ratings or how to make adjustments don't have to be boring, why not have a little fun with it? And if you want to dig deeper into the topics we discuss, each video provides links to help you with just that.

The Noble Appraiser videos have racked up tens of thousands of views. If you're not one of the more than 10,000 people who have viewed The Measurement Mayhem, you're missing out. And you can be one of the first to see The Desktop Appraisal Discovery!



For more info



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