



In this issue

# Appraiser Update

## Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our March 2023 Fannie Mae Appraiser Update. Our focus in this edition is on recent changes to Fannie Mae policies and programs and how they may impact you.

Earlier this month, we announced a new collateral option called value acceptance + property data. Here we share ideas on how property data collection (PDC) may be a business opportunity for you.

In some cases, PDC may lead to a hybrid appraisal assignment, so we also share baseline requirements for completing hybrid appraisals.

Keep reading for an update on three new types of Appraiser Quality Monitoring (AQM) letters, and learn what you can do to avoid those deficiencies in your reports.

We also cover recent changes to the MH Advantage® program, other manufactured home reminders, and tips on what must happen to decommission an accessory dwelling unit (ADU).

Our goal is for this newsletter to be a valuable resource for you, so please use the Contact us link at the end to tell us what you'd like to see in the future.

Collateral Policy Team

Fannie Mae

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## Introducing hybrid appraisals

Earlier this month, we announced value acceptance + property data as the newest solution in our valuation spectrum. Similar to the desktop appraisal solution we announced last year, this is part of our journey to better align collateral solutions to loan-level risks using data and technology.

We assess and communicate eligibility of loan applications for value acceptance + property data through Desktop Underwriter® (DU®). Loans that qualify have lower loan-to-value (LTV) ratios where we have high confidence in the value but where we need the lender to verify that the property characteristics meet our *Selling Guide* requirements.

The next step for the lender is PDC, which requires a trained and vetted third party to visit the house and observe the physical characteristics as we prescribe in our property data standard. You can learn more about PDC on our [Valuation Modernization page](#) and in

the accompanying article “Diversifying into property data collection” in this newsletter.

As underwriting progresses, it is not unusual for loan parameters to evolve. If certain parameters change (such as an increase in the proposed loan amount), the loan may no longer qualify for value acceptance + property data, meaning the lender must obtain an appraisal instead. If the PDC has already taken place, it makes sense to give the property data to the appraiser rather than send the appraiser to make a redundant visit to the home. This combination of using property data obtained through our standardized process to inform an appraiser who does not personally visit the property is what we mean by a hybrid appraisal.

We have been testing hybrid appraisals in a pilot program for several years (See “Which form should I use?” in our [September 2020 Appraiser Update](#), for example.), but this is the first use case in our *Selling Guide*, and it only



allows hybrid appraisals when all of these preconditions are met in sequence: DU determines the loan is eligible for value acceptance + property data, the lender obtains property data, the PDC confirms that the property type is single-family residential (excludes manufactured homes, condominiums, co-ops, 2+ units, and nonresidential), and finally, the loan loses eligibility in DU for value acceptance + property data due to a change in the loan parameters. In that narrow circumstance, the lender may obtain a hybrid appraisal. Consequently, we expect hybrid appraisals will happen infrequently.

Appraisers must use Fannie Mae [Form 1004 Hybrid](#) to complete hybrid appraisals. Appraisers should pay particular attention to Assumptions and Limiting Conditions 2, 3, 4, and 6 because they address the sources of information used by the appraiser and to the Appraiser's Certification 2, which makes clear the appraiser "did not

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## Appraisers must use Fannie Mae Form 1004 Hybrid to complete hybrid appraisals.

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perform a personal visual inspection of the subject property."

Here is how to complete the four fields at the top of the Additional Comments section on page 3 of Form 1004 Hybrid: For Appraisal Assignment Type, the appraiser must enter "Hybrid;" for Subject Property Data Collection Method, the appraiser must enter "Physical;" for Subject Property Data Collection Date, the appraiser must enter the date that the PDC was performed in the format YYYY-MM-DD; and for Subject Property Data Collection Workforce, the appraiser must enter the workforce shown in the property data, which will be one of the following: "Appraiser," "AppraiserTrainee," "RealEstateAgent," "HomeInspector," "InsInspector," or "Other."





## Diversifying into property data collection

Although you might not have heard the term “property data collection” or “PDC” before, the concept is not new for appraisers. It is similar to the observations made by appraisers when visiting the subject property to perform a traditional appraisal.

Earlier this month, we [announced](#) a new collateral risk management solution we call value acceptance + property data. For certain lower-risk loan applications, the PDC will provide updated information on the property and help lenders verify that it meets our *Selling Guide* requirements.

To ensure consistent and thorough PDC, we have created a formal [property data standard](#) that prescribes a robust set of property data and exhibits. It includes property characteristics in digital format, a comprehensive set of photos, and a dimensioned floor plan showing gross living area calculations and room layout. We’ve worked with technology providers who have developed mobile applications that guide the collector through the

process. We have tested our property data standard on several hundred thousand loans during the past several years, leading to iterative improvements in the standard, the apps, training, and quality control.

Appraisers are generally well qualified to perform PDC. Diversifying your business may be as simple as signing up with a technology provider, learning to use their app, and starting to receive orders. One potential benefit is that it allows appraisers who enjoy field work to specialize in that while eliminating their liability related to developing an opinion of value.

Are you curious about how the PDC process works and what is required of a property data collector? Consider taking a PDC assignment to diversify your business and stay up to date on the latest development in the mortgage industry.

You can learn more about PDC on our [Valuation Modernization page](#).

# A letter from the appraisers' inbox: What constitutes a decommissioned ADU?

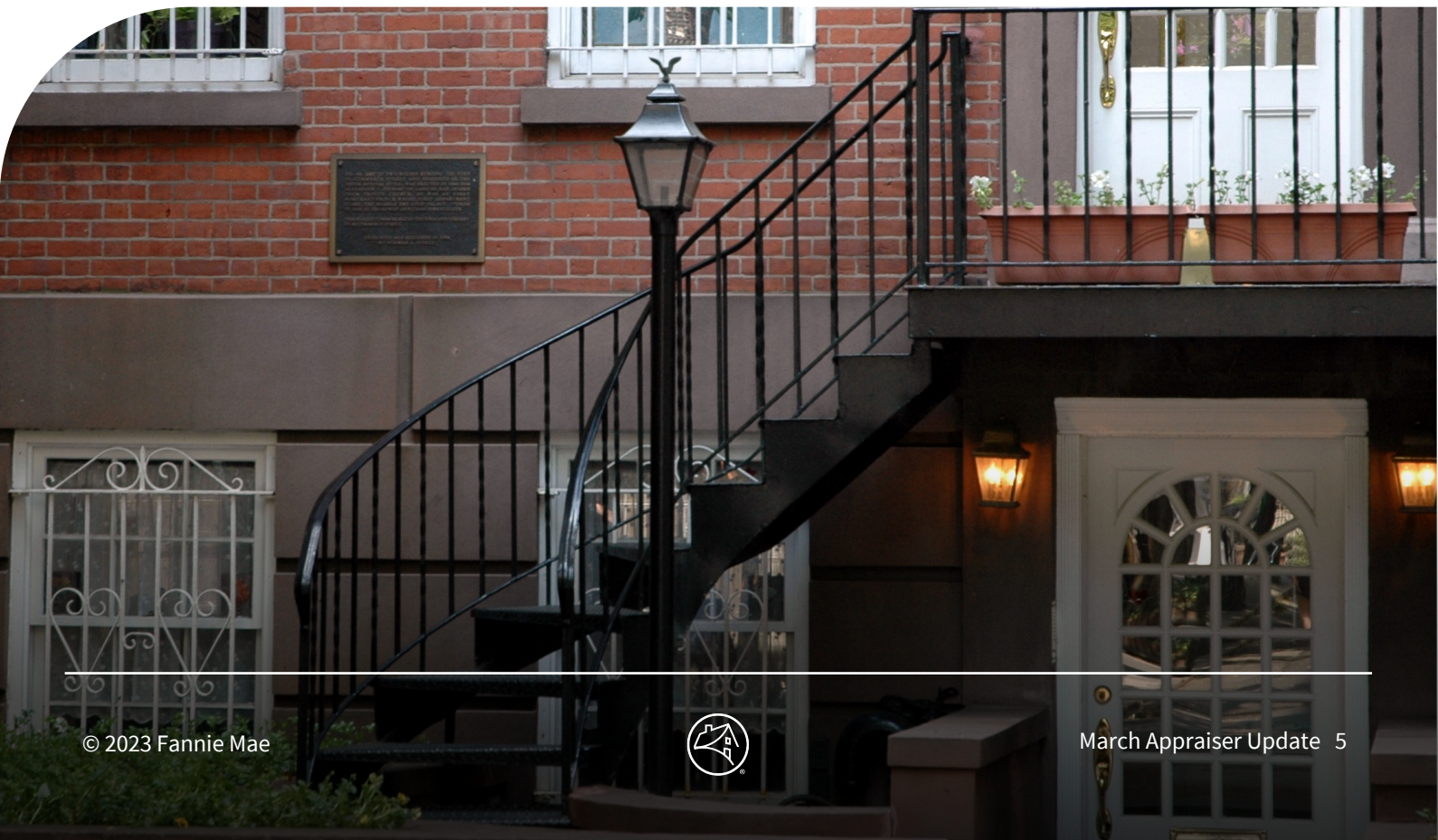
Accessory dwelling units are a recurring topic that appraisers ask about through our appraisers' inbox. Recently, we received a question about decommissioning an ADU. The scenario presented was a property that had a functioning ADU in the past (that would not be allowed as a separate unit per zoning), which the appraiser was told had been decommissioned. So how does the appraiser make the determination if the area is still an ADU? Is removing the stove enough? Do kitchen cabinets need to be removed, or could they be used for other purposes? Are bathrooms OK?

Instead of checking off each individual item, appraisers can refer to our requirements for classifying an ADU as a whole, keeping in mind that these are the minimum requirements for an ADU. If the area in question does not meet all the items required, it is not considered an ADU.

Starting with the stove question, our policy indicates the requirement of “a stove or stove

hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes).” If the stove has been removed, does the hookup still exist? If the answer is “yes,” it is still an ADU if all the other criteria are met. If the stove hookup (electric or gas line, etc.) has been removed, does it still qualify as an ADU? The answer is “no” because it does not meet the minimum kitchen qualification. Similarly, if cabinets or bathrooms exist in an area that has previously been used as an ADU, they do not on their own classify the area as an ADU. See the Accessory Dwelling Units section of [Selling Guide B2-3-04, Special Property Eligibility Considerations](#) for the full ADU classification requirements.

Thanks again for your questions and feedback. Be sure to use the Contact us button at the end of this newsletter to get in touch, and we may feature your question in an upcoming edition.



# Appraiser Quality Monitoring Update

In the [June 2022 issue of the Appraiser Update](#), we explained our Appraiser Quality Monitoring (AQM) process and provided details on two recently added types of letters we send to educate appraisers. Specifically, those letter types relate to incorrectly identifying the appraisal management company in appraisal reports and the use of unacceptable language. Since then, we have added three new AQM letter types. They provide information covering time adjustments, incorrect usage of quality ratings, and solar panels.

As noted in the [March 2021 Appraiser Update](#), positive or negative time adjustments are allowed by Fannie Mae as long as there is an explanation of the adjustment within the report. With the abundance of market trend data available today, time adjustments may be more precise and easier to derive than adjustments for physical differences. The time adjustment letter was sent to appraisers who did not apply time adjustments in any of their appraisals, including instances where market conditions were described as increasing.

Accurately describing the subject property and assigning an accurate quality rating are essential parts of the appraisal process. This new AQM letter was sent to appraisers who were over-rating properties, in particular using the Q1 and Q2 ratings when a lower rating was appropriate. A common error is using quality ratings as a relative rating to indicate the property somewhat exceeded the typical quality found in the immediate neighborhood. However, the rating should always be applied as an absolute rating based on the definitions. It is worth noting that properties within a given rating may still have quality differences and, in some cases, adjustments applied to

comparables with the same rating as the subject are appropriate with the accompanying support in the appraisal report.

When a property being appraised has solar panels, this feature must be noted on the appraisal report and the type of ownership disclosed along with an analysis of the impact to value. The AQM solar panel letter was sent to appraisers who failed to disclose that the subject property had solar panels present at the time of inspection.

These new letter types are meant to be instructional. An appraiser who receives an AQM letter should review the information provided in the letter, consult the Fannie Mae *Selling Guide* for additional information if needed, and make appropriate changes to avoid the issue in future assignments. Visit the [AQM frequently asked questions](#) for more information.





## In case you missed it: manufactured housing updates

### Single-width manufactured homes

Fannie Mae now allows the financing of older single-width manufactured homes. Prior to the policy change in December 2022, our manufactured home property eligibility requirements specified that a single-width manufactured home could be no older than 10 years, measured from the manufacture date on the HUD data plate to the effective date of the original appraisal. We updated our property eligibility criteria to remove this policy and align our age requirement with other manufactured home loan products that allow financing of manufactured homes manufactured on or after June 15, 1976.

[Selling Guide B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#)

[Selling Guide B5-2-02, Manufactured Housing Loan Eligibility](#)

### MH Advantage comparables

For MH Advantage® properties, appraisers must use other MH Advantage homes for the comparable sales when available. Due to the limited amount of MH Advantage properties in the marketplace, appraisers may find fewer than three MH Advantage sales for comparison, in which case our policy requires the appraiser to supplement with the best and most appropriate sales available. We recently modified our policy to instruct appraisers to include two site-built comparables in the appraisal report when MH Advantage comparables are not available. The reason for this change is that we have observed that appraisers often use standard manufactured home comparables without analyzing or adjusting for the superior quality of the MH Advantage. By requiring some site-built comparables, we aim to ensure that appraisers bracket construction quality and give lenders a more complete view of the impact of quality in the marketplace.

[Selling Guide B4-1.4-01, Factory-Built Housing: Manufactured Housing](#)

**Could you use a refresher on our requirements for appraising manufactured homes? Or would you like to explore opportunities to appraise manufactured homes? We've got you covered. Check out the many resources on our [Appraising Manufactured Homes webpage](#).**





## For more info



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