



# Appraiser Update

## Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our March 2024 Fannie Mae Appraiser Update.

This edition touches on hot topics including zoning changes, hybrid appraisals, subjective language, and recent *Selling Guide* updates. And keep reading for some tips on how to keep your appraisal credentials safe.

We aim to make this newsletter part of what keeps you successful. Please [let us know](#) how we're doing and tell us what you would like to see in future newsletters.

Collateral Policy Team  
Fannie Mae

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# Progress Report Regarding Prohibited or Subjective Appraisal Language

Fannie Mae’s practice of scanning appraisal reports for prohibited and subjective language has been a recurring theme in our quarterly Appraiser Updates. For example, in our June 2022 “*Appraiser Quality Monitoring update*,” we described how we began notifying appraisers in November 2021 via letter when we observe instances of unacceptable phrases and statements. Our December 2022 article, “*Improve appraisal commentary with facts, not feelings*,” shared insights into what we look for and why it is important. Then, in our June 2023 article “*Prohibited factors and subjective terms*,” we shared some problematic quotes from actual appraisal reports that we found through our scanning process.

As a reminder, [Selling Guide B4-1.1-04, Unacceptable Appraisal Practices](#), states that prohibited language includes the “**development of a valuation conclusion based... on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class ...**” while subjective language refers to the “use of unsupported assumptions, interjections of personal opinion, or perceptions.” One of the goals of this policy is to help lenders and appraisers stay safe as it concerns their obligation to comply with fair lending laws and with the Uniform Standards of Professional Appraisal Practice.

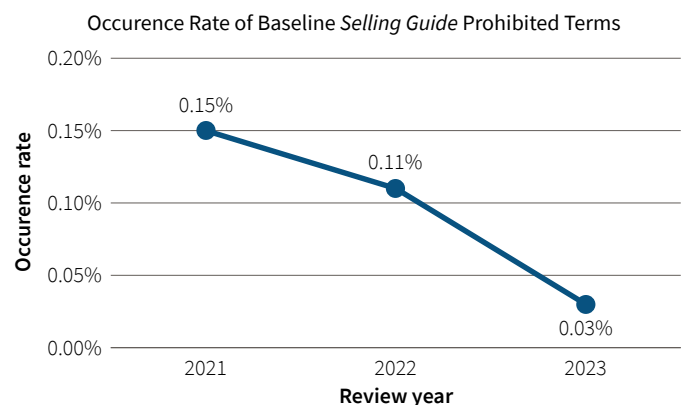
## A Success Story

Each year beginning in 2021, we have scanned the appraisal reports we’ve received for a limited set of terms explicitly called out in the *Selling Guide*. In 2021, we sent letters to more than 1,500 appraisers, alerting them of violations. About 79% of the appraisers who received a letter in 2021 had no new findings in 2022.

In 2023, the fraction with no new findings increased to 93%. Similarly, 91% of appraisers who received a letter in 2022 had no new findings in 2023.

This is reflected in the overall occurrence rate which has declined from 0.15% of appraisal reports in 2021 to just 0.03% in 2023 (see Figure 1). These statistics highlight the remarkable progress appraisers have made in becoming more objective in their thinking and writing, and in eliminating consideration of protected class.

**Figure 1. Year over Year Improvement in Occurrence Rate**



## Expanded Efforts

In 2023, we expanded our scanning to include language that may infer consideration of protected class along with additional cases of subjectivity or unsupported assumptions. We sent an additional 1,900+ letters as a result. The purpose of these letters is simply to educate the appraisers, and the feedback received has been mostly positive. We congratulate appraisers for adopting new ways of thinking and writing to eliminate unsupported assumptions and consideration of protected class, and we look forward to even more progress in the future.





## Rezoning & HBU

Municipalities across the United States are revisiting existing density for residential areas that historically have allowed only one dwelling unit per site. They aim to increase housing supply in markets experiencing shortages by enacting zoning changes to increase the number of allowable units. In some cases, the new zoning would allow more than four units on a single lot which has created concerns for residential appraisers.

One concern is whether the rezoned property meets eligibility requirements for conventional lending. Another concern is whether the residential appraisal certificate or license allows the appraiser to appraise the property. These concerns are actually not new; many jurisdictions in the United States have long had permissive zoning (or in some cases, no zoning) allowing for more than 4 units. Appraisers in such locations have established practices that others in newly impacted areas can emulate. Importantly, both of these concerns may be resolved through the appraiser's highest and best use analysis (HBU).

First, it is very important for appraisers to understand in the context of Fannie Mae policy that the property eligibility determination and the appraisal scope of work are based on the HBU *as improved*. This is spelled out in [Selling Guide B2-3-01, General Property Eligibility](#). The question of HBU as if vacant is immaterial which simplifies the problem for appraisers.

Fannie Mae's [Selling Guide B4-1.3-04, Site Section of the Appraisal Report](#) requires appraisers to apply the standard four tests to determine the HBU as improved of the subject property:

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*For improvements to represent the highest and best use of a site, they must meet all of the following criteria:*

- *Are legally permitted,*
- *financially feasible,*
- *physically possible, and*
- *must provide more profit than any other use of the site would generate.*

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Further, we provide guidance on how to treat scenarios where other potential usages exist:

*“If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.”*



Again, this should simplify the problem for the appraiser. For example, if a single-family residential improvement is less than the maximum number of units allowed by zoning (e.g., R-3, three residential units) but still legal, it may still be the HBU as improved so long as the comparable sales indicate that the property is typical and compatible with the neighborhood and that the property value exceeds the vacant site value. In cases like this, the appraiser would check the “Yes” box under HBU in the 1004 form:

Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use? <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No If No, describe
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We strongly recommend that appraisers explain their HBU analysis in the report in addition to checking the box.

Second, to answer the question of whether the residential appraisal certificate or license allows the appraiser to appraise the property, appraisers should consult their state board or legal counsel. That said, HBU is only a prelude to or a part of an appraisal assignment. Appraisers typically are not limited in performing HBU by their license level. Thus, an appraiser may be able to perform HBU analysis to determine whether or not the property can be appraised under their license level. When HBU as *improved* demonstrates that usage is four units or less, it should provide clarity and peace of mind to the residential appraiser.

Hopefully this quick overview will help appraisers navigate any recent or pending zoning changes in the market areas they serve.

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# Age of Comparable Sales

An appraiser recently asked us how to calculate the age of a comparable property – should they use the effective date of the appraisal or the sale date of the comp?

While Fannie Mae does not currently have an explicit policy for how to calculate the age, the general principle in regard to comparables is to describe them as of the date they went under contract. Things that happen later (such as aging of the property due to additional passage of time) is immaterial for comparison purposes. So, the best choice is to use the date of contract for the comparable and then

subtract the date it was built. If the date of contract is not available, the close date is the next best option. Of course, the exact date that construction was completed is often unknown, particularly for older homes, so it makes sense to use the year built which is more commonly available.

For example, let's say you are writing an appraisal with an effective date in 2024. You have found a comparable that was originally built in 2005 and was sold in September 2023. The comparable sale's actual age should be listed as 18 years (2023 – 2005 = 18).

# Updated Unacceptable Appraisal Practices

The February 2024 *Selling Guide* update replaced “crime ridden area” with “crime” (and its variants)’ as examples in the Unacceptable Appraisal Practices section. This change focuses on the *principle* that any variation on the theme (like references to crime rate data or criminal activity) is prohibited, rather than taking a mechanical approach of attempting to construct a comprehensive list of prohibited terminology.

This principle is illustrated by the Appraisal Foundation’s recently published [USPAP Q&As](#) (see page 2): “Additionally, a description of a location as in a “high-crime area” is often a code word or phrase that is used to signal race or ethnicity.”

Make sure to review any appraisal templates to prevent future inclusion of these types of references.



# Introducing the Hybrid Appraisal Report for Condos

In the February 2024 *Selling Guide* update, we added condos as eligible properties for value acceptance + property data. In rare cases, a value acceptance + property data offer may be lost due to a change in qualifying loan characteristics after the property data collection has been delivered. In these cases, Fannie Mae will accept a hybrid appraisal informed by the property data collection (PDC). To accommodate condo properties, we have added the [Individual Condominium Unit Appraisal Report \(Hybrid\)](#) to the *Selling Guide*.

As a reminder, Fannie Mae allows traditional appraisals (those based on an interior and exterior on-site physical inspection of the property by the appraiser) of units in condo projects that consist solely of detached dwellings to be reported on the Uniform Residential Appraisal Report (Form 1004). However, our requirement for hybrid appraisals (see *Selling Guide* B4-1.2-03, Hybrid Appraisals) of all condos (attached or detached) is that the appraiser must report them on the Individual Condominium Unit Appraisal Report (Hybrid).

# Cybersecurity Tips

The fraud event listed in the [January Fraud Alert](#) was uncovered when one of the two appraisers whose credentials had been forged, was contacted about an appraisal they had not performed.

## What you can do

Keep your contact information up to date with your state licensing agency.

If your licensing state tracks Appraisal Management Company (AMC) appraiser panelists, ensure the registry information is correct.

## What to look for

Be alert to when a lender or AMC contacts you about an appraisal you have not performed.

## What if I think my ID has been compromised?

If you do suspect something, report it! Report suspicious activity to [Fannie Mae Mortgage Fraud Prevention](#).





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