



Fannie Mae®

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## In this issue

# Appraiser Update

## Periodic updates for residential appraisers serving Fannie Mae customers

Welcome to our September 2023 Fannie Mae Appraiser Update.

This issue focuses on dual themes of delivering high quality appraisals and understanding recent policy changes.

Topics include recent updates to the Appraiser Independence Requirements (AIR), information about our practice of sharing tips with state appraisal regulatory bodies, new options for completing the 1004D, answering the most common ANSI square footage questions submitted to us, and our stance on 3D printed homes, an innovative technique gaining traction in the housing construction industry.

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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# Building innovation with 3D printed homes

Fannie Mae has updated our *Selling Guide* to clarify that 3D printed homes are not a unique housing type. Although you may not have seen them in your market yet, 3D printed home communities (some with 100+ single-family units) are under development in Texas, Virginia, and elsewhere. Both market-rate and affordable developments are using the 3D printing technology, which produces energy-efficient homes with less waste than traditional construction methods. As one example, some communities in Virginia are partnering with Habitat for Humanity and the state housing authority to construct affordable homes using 3D printing. The 3D printing technology has the potential to help solve for housing affordability and sustainability challenges across the U.S.

But what, you may ask, is a 3D printed home? 3D printed homes are built using an on-site, computer-controlled robot that is programmed to build up the walls by extruding concrete in a continuous path dictated by the architectural plan. The key innovation is not in materials or design but rather in the use of robotics for the labor.

Although this construction technique has recently emerged in residential home construction, concrete has been a building material for many centuries. Concrete is both energy efficient and more resilient than other materials such as wood. These homes are built to meet or exceed local building codes. They are subject to code inspections and enforcement like other site-built new construction. They are typically one-story with respect to the concrete extruded walls; a second story can be added if desired, commonly using wood frame and traditional methods. Most 3D printed homes are being built in new communities consisting of a mix of traditional-built wood frame and 3D printed concrete homes.

The *Selling Guide* states that: “A 3D printed home with a traditional design and constructed using conventional building materials is not considered a unique or nontraditional housing type.” Appraisers and lenders should follow our standard requirements for site-built housing.

We do require appraisers to identify this construction method by entering “**3D printed home**” on the bottom free-form description field in the Sales Comparison Approach grid for the subject property and comparable sales, if applicable.

You may begin seeing 3D printed homes in your area soon. In the meantime, check out these links to learn more.

- [A 3D-printed house is for sale in New York. Builders say it will cut housing construction costs – CNN](#)
- [Habitat for Humanity Peninsula and Greater Williamsburg Dedicates Nation’s First-Ever 3D-Printed Habitat Home to Williamsburg Family – Habitat for Humanity](#)



Photo courtesy of [Lennar](#). Used with permission.

# Appraiser and Property Data Collector Independence Requirements

Fannie Mae and Freddie Mac recently collaborated to update the [Appraiser Independence Requirements \(AIR\)](#). We also introduced new Property Data Collector Independence Requirements (PDCIR). These requirements are designed to protect the integrity of mortgage lending collateral risk management processes for lenders, investors, and borrowers.

While the update incorporates lessons learned and changes in the mortgage industry since AIR was first published in 2010, the core principle of protecting appraisers so they can complete assignments free from pressure remains the same. Key revisions include:

- Defined who is covered by the protections, now referred to as an independent party.
- Clarified who cannot participate in appraisal procurement, now referred to as a restricted party.
- Reiterated that the lender is the responsible party for ensuring compliance.
- Reduced the number of FAQs by providing more clarity within the AIR.

The term “Independent Party” refers to the appraiser, appraisal company, appraisal management company, any entity or person related to the appraiser, appraisal company, or appraisal management company, or any other party that is part of the appraisal process.

No person is allowed to influence or attempt to influence the development, reporting, result, or review of an appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or any other manner.

Restricted Parties consist of all members of the Seller’s mortgage production staff, any person who is compensated on a commission basis upon the successful closing of a mortgage including Mortgage Brokers, Loan Originators, and real estate agents; and any person whose immediate supervisor is a member of the mortgage production staff or otherwise participates in the Seller’s mortgage production process.

Restricted parties are prohibited from ordering, managing, or defining the scope of work for an appraisal assignment; selecting, retaining, recommending, or influencing the selection of any appraiser for a particular appraisal assignment or for inclusion on a list or panel of appraisers approved or forbidden to perform appraisals for the Seller; or having any substantive communications with an appraiser or appraisal management company relating to or having an impact on valuation.

The PDCIR provide the same protections as AIR to safeguard the independence, objectivity, and impartiality of persons engaged in property data collection (the act of physically or virtually observing and reporting property characteristics in a fact-based manner).



# How State Tips Work

Fannie Mae occasionally provides tips to state regulatory agencies when we find appraisals with severe deficiencies. Our goal is to give states actionable information to help improve the quality of appraisers and appraisals. But how does the process work? Spoiler alert: state tips are never auto-generated and always require extensive manual research.

Fannie Mae's Loan Quality Center (LQC) completes full-file reviews on loans selected as part of a random sample or based on detection of potential anomalies. Appraisal is just one aspect of our reviews, which also encompass credit underwriting and other *Selling Guide* requirements. Collateral Underwriter® (CU®) risk analysis is one of the inputs into the selection logic.

LQC reviews are not automated. Our expert analysts validate the appraisal results by asking questions like “Do the comparable sale selections make sense?”, “Is the data accurate?”, “Did the appraiser make appropriate adjustments?”, and “Are we getting the most probable value?” in context of a comprehensive database of property characteristics and market transactions.

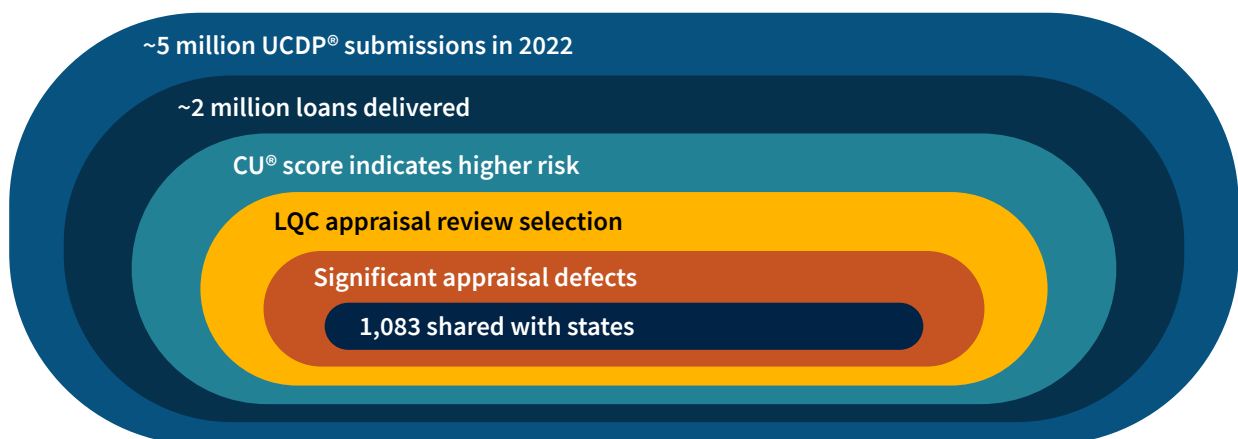
If the analyst finds significant defects, then the appraisal goes to an internal QC review. In some cases, the QC review is followed by a management review. Citations that survive our internal checks are communicated to the lender.

Lenders then have a rebuttal period followed by an appeals process. If the lender is unable to resolve the concern by providing additional evidence in support of the appraisal, they ultimately remedy the situation either through a loan repurchase or a repurchase alternative, and only then do we notify the state of our concern.

State regulators have complete discretion on what to do with our tips. A tip may lead the state to investigate and can result in disciplinary action. We have seen many cases where the state required the appraiser to obtain additional education or mentorship as a result of the investigation.

Through this process, we aim to be responsible members of society, helping protect the public trust by giving appraisers and regulators feedback about deficient appraisals impacting the secondary mortgage market. Too often the competitive pressures on appraisers focus on turn time or price. With state tips, we hope to incentivize competition for superior quality.

## Multiple filters applied prior to tipping



## Sample timeline for a State Tip

Wondering how fast this process is? Here's a timeline for a recent State Tip.



**A note about the number of appraisers whose appraisals are reported as state tips:** Generally, the number of tips we provide is proportionate to the state population. Ohio, for instance, was the seventh most populous state in 2022, and also had the seventh largest number of state tips that year at 46. The Appraisal Subcommittee's Appraiser Registry currently lists 2,781 active appraisal licenses in Ohio.

If each tip was for a unique appraiser, that amounts to 1.2% of the state's appraisers. Texas received our highest number of tips (86) in 2022, consistent with its rank as the second most populous state, impacting about 1.5% of its 5,781 active appraisal licenses. For 2022, about 0.05% of appraisals for loans acquired by Fannie Mae resulted in state tips (see accompanying graphic).



# ANSI Answers

Fannie Mae began requiring appraisers to follow the “Square Footage-Method for Calculating: ANSI® Z765-2021” standard more than a year ago. Here are answers to the most common questions we’ve received about the standard.

## Ceiling Height

The seven-foot minimum ceiling height requirement for ANSI continues to cause some confusion. Here is how to handle situations when ...

- **The entire home has a ceiling height of less than 7 feet.**

This is a good example of when to invoke the exception process. When the appraiser is unable to adhere to the ANSI standard, the appraiser will provide the code “GXX001-” in the Additional Features field on the appraisal form and explain why compliance was not possible.

- **Ceiling height for most of the residence is less than 7 feet.**

Document the square footage below the ANSI minimum ceiling height as an additional line in the adjustment grid and apply the appropriate market adjustment.

- **Ceiling height is 6.96’.**

The Standard requires measuring to the nearest inch or tenth of a foot for all areas, including ceiling height. In this case, the ceiling height must be rounded and reported as 7 feet.

- **Ceiling height is 6.85’.**

The Standard requires measuring to the nearest inch or tenth of a foot for all areas, including ceiling height. In this case, the ceiling height must be rounded and reported as 6.9’, which does not meet the 7’ threshold.

Market reaction to non-GLA areas can be greater than, less than, or equal to that of the GLA. The appraiser should capture market reaction in adjustments to these areas, as covered in the Analysis of Adjustments section of the *Selling Guide B4-1.3-09, Adjustments to Comparable Sales*.

## Basements and Below Grade Areas

When the below grade areas have a ceiling height of at least 7’, enter the total basement square footage, the finished basement square footage, and the room count in the ‘Basement & Finished Rooms Below Grade’ field in the grid. Make adjustments on those lines in the grid as needed.

If all rooms in the basement have less than 50% of the ceiling height of 7’ (note: this determination is made on a room-by-room basis), enter the total square footage of the basement on the top Basement Line, followed by a zero. Example: 800;0, nothing is entered on the second basement line. Enter the data for finished rooms with ceiling height below 7’ on a different line in the grid, make the appropriate market adjustments, and include an explanation of what was done in the appraisal report.

For scenarios where some finished basement rooms have 50% or more ceiling height of 7’ while other finished rooms have less, then the top Basement line will be total sq. ft. of the basement (including everything), followed by total finished area (where ceiling height meets or exceeds 7’) and in the second basement line, enter the room count for those finished areas. Finally, enter the data for finished rooms with ceiling height below 7’ on a different line in the grid, make the appropriate market adjustments, and include an explanation of what was done in the appraisal report.

Other questions are covered in the [Standardized Property Measuring Guidelines FAQs](#). If you still have questions, please submit them to the Contact Us link at the end of this newsletter.



# 1004D Completion Confirmation Alternatives

The Appraisal Update and/or Completion Report (Form 1004D) historically required an appraiser to conduct an on-site visual inspection of the property to determine if the conditions or requirements stated in the original appraisal had been satisfied. During the pandemic, we temporarily allowed alternatives to the on-site visual inspection to reduce the chances of spreading the virus through in-home visits. Building on that experience, in March we announced *Selling Guide* updates introducing new methods that allow appraisers to verify and certify completion on the 1004D Form without making an on-site visit.

These new 1004D fulfillment options offer appraisers flexibility to verify completion without having to leave the office, conserving drive time and fuel. Allowable verification tools for the 1004D now include virtual inspections, digital photos, site videos, and other technological solutions. We allow these options for the 1004D regardless of [which form](#) was used for the original appraisal.

For a virtual inspection, the appraiser observes the changes remotely by directing another person such as a homeowner, realtor, or builder who is at the subject property. The other person uses a mobile application to live stream the inspection to the appraiser, who captures evidence such as digital photos or videos of the completed items.

The method(s) used and exhibits delivered must be sufficient for the appraiser to determine and document that the conditions or requirements in the original appraisal were satisfied.

CAUTION: When the purpose of the 1004D is to update the original appraisal report, the appraiser cannot use the alternative fulfillment options but must “perform an exterior inspection of the subject property from at least the street”, as specified in the Scope of Work on the 1004D.

For full details, see [Selling Guide section B4 1.2 05, Requirements for Verifying Completion and Postponed Improvements \(03/01/2023\)](#).



Congratulations to Fannie Mae’s Director of Collateral Policy & Equity, Rachel Beam, for being named one of [HousingWire’s 2023 Women of Influence](#). Rachel leads critical valuation modernization initiatives and has guided the growth of the Appraiser Diversity Initiative since its inception in 2018.



# Rachel Beam

Director of Collateral Policy & Equity

## 2023 Women of Influence

HousingWire

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