Fannie Mae

## Fannie Mae Selling Guide Supplement:

# Uniform Appraisal Dataset (UAD) 3.6 Policy

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# Fannie Mae Selling Guide Supplement: Uniform Appraisal Dataset (UAD) 3.6 Policy

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# About the *Selling Guide* UAD 3.6 Policy Supplement

This *Selling Guide* UAD 3.6 Policy Supplement provides the updated policy specifically for lenders approved by Fannie Mae to use the Uniform Appraisal Dataset (UAD) 3.6 during the Limited Production Period beginning on Sept. 8, 2025, and ending on Jan. 25, 2026 and, thereafter, for lenders that choose to use UAD 3.6 following the Limited Production Period. All lenders are required to use UAD 3.6 for all new appraisal reports submitted to the Uniform Collateral Data Portal (UCDP) on or after Nov. 2, 2026 unless they have submitted a temporary exception based on Lender Letter LL-2026-08, *Temporary Policy Exception for Lenders Unable to Meet the UAD 3.6 November Mandate*.

> **NOTE:** *For Fannie Mae-approved lenders **not** using UAD 3.6, the existing policies for completing appraisals under UAD 2.6 will remain in the current Selling Guide. Refer to Selling Guide Subpart B4, Underwriting Property, for complete policy guidance.*

Visit the UAD web page for a detailed timeline and resources to support your transition to the new UAD.


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# ADU and MH Policy Changes – Effective Date and Implementation Timeline

Fannie Mae occasionally releases information regarding policy updates ahead of their effective dates to provide lenders with sufficient time to prepare for implementation. The expanded ADU eligibility changes outlined below are effective for loans sold on or after **March 31, 2026**, and **apply exclusively to lenders using UAD 3.6**.

- **Multi-Unit Properties:** Updated eligibility criteria to allow 2- to 3-unit properties to include ADU(s), provided the number of dwelling units plus the ADU(s) does not exceed four.
- **Multiple ADU(s) on One-Unit Properties:** Extends eligibility to 1-unit properties with up to three ADU(s).
- **One ADU for Standard Manufactured Housing:** Extends eligibility to one-unit MH (single-section or multi-section) with a single ADU classified as real property.
- **Multiple ADU(s) for MH Advantage:** Extends eligibility to MH Advantage (single-section or multi-section) as the primary dwelling, to include ADU(s) provided the number of dwelling units plus the ADU(s) (must all be classified as real property) does not exceed four.
- **Two- to Four-Unit and Multi-story Manufactured Home Eligibility**
  - **Manufactured Home (MH):** Extends eligibility to two- to four-unit properties.
  - **Multi-story Manufactured Home:** Extends eligibility to multi-story manufactured homes.

### Units in a Condo Project with an ADU

Effective November 4, 2026, eligibility is expanded to include units with ADUs in condo projects.
Refer to *Selling Guide* Announcement SEL-2025-10 and SEL-2026-10 for list of impacted topics.

# *Selling Guide* UAD 3.6 Policy Supplement Updates

The following table outlines the *Selling Guide* topics in the existing *Selling Guide* as they relate to the supplement topics in the UAD 3.6 Policy Supplement. Use the hyperlinks within this document to connect to specific policy for UAD 3.6; refer to the existing *Selling Guide* for UAD 2.6 policy. Topic numbers may change when the *Selling Guide* is updated once the UAD 3.6 and Forms Redesign transition is complete.

**Note: Bolded titles in the table indicate a change in name.**

| *Selling Guide* Topic Name (UAD 2.6) | Supplement Topic Name for Limited Production Period (UAD 3.6) |
|---|---|
| B2-3-01, General Property Eligibility (12/10/2025) | SB2-3-01, General Property Eligibility (09/02/2026) |
| B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (02/04/2026) | SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (02/04/2026) |
| B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates (08/05/2026) | SB2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates (08/05/2026) |
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| B3-3.8-03, Rental Income from the Subject Property: Short-Term Rental (09/02/2026) | B3-3.8-03, Rental Income from the Subject Property: Short-Term Rental (09/02/2026) |
| B3-3.8-04, Rental Income from the Non-Subject Property (09/02/2026) | B3-3.8-04, Rental Income from the Non-Subject Property (09/02/2026) |
| B3-3.8-05, Rental Income from Non-Subject Property: Departing Residence (09/02/2026) | B3-3.8-05, Rental Income from Non-Subject Property: Departing Residence (09/02/2026) |
| B3-3.8-06, Rental Income from Non-Subject Property: Investment Properties Purchased within 45 Days of the Subject Property (09/02/2026) | B3-3.8-06, Rental Income from Non-Subject Property: Investment Properties Purchased within 45 Days of the Subject Property (09/02/2026) |
| B3-6-06, Qualifying Impact of Other Real Estate Owned (09/02/2026) | B3-6-06, Qualifying Impact of Other Real Estate Owned (09/02/2026) |
| B4-1.1-01, Definition of Market Value (06/04/2025) | **SB4-1.1-01, Definition of Market Value and Alternate Opinion(s) of Value (06/04/2025)** |
| B4-1.1-02, Lender Responsibilities (09/03/2025) | SB4-1.1-02, Lender Responsibilities (09/03/2025) |
| B4-1.1-03, Appraiser Selection Criteria (06/04/2025) | SB4-1.1-03, Appraiser Selection Criteria (06/04/2025) |
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| B4-1.1-05, Disclosure of Information to Appraisers (06/04/2025) | SB4-1.1-05, Disclosure of Information to Appraisers (06/04/2025) |
| B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (06/04/2025) | SB4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (06/04/2025) |
| B4-1.2-01, Appraisal Report Forms and Exhibits (12/10/2025) | **SB4-1.2-01, Appraisal Reports and Exhibits (12/10/2025)** |
| B4-1.2-02, Desktop Appraisals (12/10/2025) | SB4-1.2-02, Desktop Appraisals (12/10/2025) |
| B4-1.2-03, Hybrid Appraisals (12/10/2025) | SB4-1.2-03, Hybrid Appraisals (12/10/2025) |
| B4-1.2-04, Appraisal Age and Use Requirements (06/04/2025) | **SB4-1.2-04, Age of Appraisal and Restricted Appraisal Update Report Requirements (06/04/2025)** |
| B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements (12/10/2025) | SB4-1.2-05, Requirements for Verifying Completion and Postponed Improvements (12/10/2025) |
| B4-1.3-01, Review of the Appraisal Report (06/04/2025) | **SB4-1.3-01, Review of the Uniform Residential Appraisal Report (06/04/2025)** |


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| B4-1.3-02, Subject and Contract Sections of the Appraisal Report (06/04/2025) | **SB4-1.3-02, Subject Listing Information, Sales Contract, Prior Sale, and Transfer History (06/04/2025)** |
| B4-1.3-03, Neighborhood Section of the Appraisal Report (06/04/2025) | **SB4-1.3-03, Market Section of the Uniform Residential Appraisal Report (09/02/2026)** |
| B4-1.3-04, Site Section of the Appraisal Report (06/04/2025) | **SB4-1.3-04, Property Site, Disaster Mitigation, and Highest and Best Use (09/02/2026)** |
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| B4-1.4-07, Mixed-Use Property Appraisal Requirements (06/04/2025) | **SB4-1.4-07, Appraisal Requirements for Mixed-Use Properties (09/02/2026)** |
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| B5-2-03, Manufactured Housing Underwriting Requirements (12/10/2025) | SB5-2-03, Manufactured Housing Underwriting Requirements (12/10/2025) |
| B5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Loan Delivery Requirements (12/10/2025) | SB5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Loan Delivery Requirements (12/10/2025) |

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# SB2-3-01, General Property Eligibility (09/02/2026)

## Introduction

This topic contains information on Fannie Mae's property eligibility requirements, including:


- Overview
- Number of Units
- Property Location
- Property Requirements
- Acceptable Forms of Property Ownership
- Acceptable Dwelling Types
- Ineligible Properties
- Loan-Level Price Adjustments


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## Overview

Fannie Mae purchases or securitizes eligible mortgages in all markets across a broad geographic range. This topic describes Fannie Mae's property eligibility requirements. The requirements are designed to address a wide range of property types with varying characteristics; however, there may be instances when the unique nature of a particular property may require special consideration. In those cases, Fannie Mae encourages lenders to contact their Fannie Mae customer account team.

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## Number of Units

Fannie Mae purchases or securitizes first-lien mortgages that are secured by residential properties when the dwelling consists of one to four units. Under some circumstances, Fannie Mae limits the number of dwelling units for certain types of mortgages or transactions. For the maximum allowable LTV, CLTV, and HCLTV ratios and credit score requirements based on the property type and number of units, see the *Eligibility Matrix.*

**Note**: A property with one primary dwelling and an accessory dwelling unit (ADU) is classified as a one-unit property and must meet all one-unit requirements, unless otherwise specified. For guidance on the number of ADUs allowed on one-, two-, and three-unit properties, refer to the Accessory Dwelling Units section in SB2-3-04, Special Property Eligibility Considerations.

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## Property Location

The security property must be located in

- the United States (including the District of Columbia),
- Puerto Rico,
- the U.S. Virgin Islands, or
- Guam.

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## Property Requirements

The mortgaged premises must

- have a residential highest and best use as improved (or as proposed):
- have a present use that is primarily residential as defined by the characteristics of the property and surrounding market area (see SB4-1.3-03, Market Section of the Uniform Residential Appraisal Report);

  **Note**: A subordinate non-residential use is allowed in certain circumstances. See SB4-1.4-07, Appraisal Requirements for Mixed-Use Properties for more information.

- be a one- to four-unit residence, inclusive of accessory dwelling units (ADUs) (see *Ineligible Properties* in this topic for exclusions);

- be secured by an interest in real property within the meaning of the Internal Revenue Code as such term is defined in 26 C.F.R. § 1.856-3;
- be sound and structurally secure (see SB4-1.3-06, Dwelling Condition and Quality of Construction);
- be legal, legal non-conforming, or satisfy the requirements outlined in *Zoning for an ADU* in SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report. See SB4-1.3-04, Property Site, Disaster Mitigation, and Highest and Best Use for more information on legal, legal non-conforming, or no local zoning;
- be readily accessible by roads that meet local standards (see SB4-1.3-04, Property Site, Disaster Mitigation, and Highest and Best Use);
- be served by utilities that meet community standards (see SB4-1.3-04, Property Site, Disaster Mitigation, and Highest Best Use); and
- be suitable for year-round use.

**Note**: Certain aspects of the location of a property may require special consideration. For example, properties in resort areas that attract people for seasonal or vacation use are acceptable only if they are suitable for year-round use.

---

### Acceptable Forms of Property Ownership

Title to the property must be held as fee simple (which may include title held in a life estate), leasehold estate or as a co-op form of ownership. (See B2-2-01, General Borrower Eligibility, SB2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates; and B4-2.3-04, Loan Eligibility for Co-op Share Loans, for additional information.)

**Note:** Life estates satisfying the requirements described in B2-2-01, General Borrower Eligibility, are often chosen as a means to avoid probate. However, similar arrangements do not qualify as life estates for loan eligibility purposes if:

- the named successors under such arrangements do not have vested and irrevocable property rights in the subject property, such as with “lady bird deeds”, or
- the current holder of the property can, before their own death, transfer full ownership of the subject property to a third party without the approval or consent of any contingent beneficiaries, such as under typical statutory “transfer on death deeds.”

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### Acceptable Dwelling Types

Dwelling units for security properties may be detached, attached, or semi-detached.

Properties may be located

- on an individual lot,
- in a condo project,
- in a co-op project, or
- in a planned unit development (PUD) or subdivision project.

Properties located in a condo, co-op, or PUD project must meet Fannie Mae’s project standards requirements (see *Selling Guide* Chapter B4–2, Project Standards).

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### Ineligible Properties

Fannie Mae does not purchase or securitize mortgages on

- vacant land or land development properties;
- properties that are not readily accessible by roads that meet local standards;
- agricultural properties, such as farms or ranches;
- units in condo or co-op hotels (see *Selling Guide* B4-2.1-03, Ineligible Projects, for additional information);
- properties that are not secured by real estate such as, houseboats, boat slips, timeshares, and other forms of property that are not real estate (see *Selling Guide* B4-2.1-03, Ineligible Projects, for additional information);

- boarding houses;
- bed and breakfast properties; or
- properties that are not suitable for year-round occupancy regardless of location.

**Note:** Group homes are not considered to be boarding houses. They are an eligible property type, including when leased to a business entity for use as a group home.

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### Loan-Level Price Adjustments

A Loan-Level Price Adjustment (LLPA) applies to certain property types, including multiple-unit properties and units in an attached condo project. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the *Loan-Level Price Adjustment (LLPA) Matrix.*


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# SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (02/04/2026)

### Introduction

This topic contains information on factory-built housing, including:

- Manufactured Home Property Eligibility Requirements
- MH Advantage Property Eligibility Requirements
- Modular, Prefabricated, Panelized, or Sectional Housing Eligibility
- Modular, Prefabricated, Panelized, or Sectional Housing Requirements
- Modular Construction Techniques on Multi-Unit Buildings

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### Manufactured Home Property Eligibility Requirements

Fannie Mae defines a "manufactured home" as any dwelling unit built on a permanent chassis that is attached to a permanent foundation system and evidenced by a HUD Data Plate and HUD Certification Label(s). For additional information, see *Selling Guide*, B5-2-02, Manufactured Housing Loan Eligibility. (The terms "manufactured home" and "manufactured housing" are used interchangeably in this Guide).

The table below provides additional manufactured housing property eligibility requirements. For manufactured housing appraisal requirements, see SB4-1.4-01, Factory-Built Housing: Manufactured Housing. For more information, see the Manufactured Housing Product Matrix. For project review methods for manufactured homes located in a condo or PUD, see SB4-2.1-01, General Information on Project Standards.

| ✓ | Requirements |
|---|---|
| | The manufactured home must be built in compliance with<br>• the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976, as amended and in force at the time the home is manufactured; and<br>• additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280.<br>Compliance with these standards will be evidenced by the presence of either a HUD Data Plate or the HUD Certification Label(s) for each section of the home for existing construction. Lenders must obtain photos of the original HUD Data Plate or HUD Certification Label(s) or provide the alternative documentation described below. If neither of these can be obtained, the loan is not eligible for sale to Fannie Mae. (Both are required for new construction). |
| | The HUD Data Plate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition to the data required by Fannie Mae, the Data Plate includes pertinent information about the unit, including a list of factory-installed equipment. The HUD Certification Label(s), sometimes referred to as a HUD "seal" or "tag," is a metal plate located on the exterior of each section of the home. The Uniform Residential Appraisal Report must have photos of either the HUD Data Plate or the HUD Certification Label(s). |


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| | |
|---|---|
| | As an alternative to the original HUD Certification Label(s) or the HUD Data Plate for existing manufactured homes, the lender must obtain either a label verification letter with the same information contained on the HUD Certification Label(s) or duplicate HUD Data Plate from the Institute for Building Technology and Safety (IBTS). A duplicate HUD |

| ✓ | Requirements |
|---|---|
| | Data Plate may also be available by contacting the In-Plant Primary Inspection Agency (IPIA) or the manufacturer. (A list of IPIA offices is posted on HUD's website.) |
| | The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer's lot as a new unit. |
| | The manufactured home must be a one- to four-unit dwelling that is legally classified as real property and can include only one accessory dwelling unit. See SB2-3-04, Special Property Eligibility Considerations for additional information. See SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing for ADU requirements for MH Advantage.<br><br>Note: At the time of sale of the loan to Fannie Mae, the home must no longer be classified as personal property, and all steps required to classify the home as real property must have been completed. |
| | The towing hitch, wheels, and axles must be removed. The dwelling must assume the characteristics of site-built housing. |
| | The manufactured home must be at least 12 feet wide and have a minimum of 400 square feet of above-grade finished area.<br><br>Except for MH Advantage properties, Fannie Mae does not specify other minimum requirements for size, roof pitch, or any other specific construction details for HUD-coded manufactured homes. |
| | Site preparation for delivery of the manufactured home must be completed. |
| | The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance.<br><br>The foundation system must be appropriate for the soil conditions for the site and meet local and state codes. |

| | |
|---|---|
| | The manufactured home must be permanently connected to a septic tank or sewage system, and to other utilities in accordance with local and state requirements. |
| | If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community owned and maintained or privately owned and maintained. |

| ✓ | Requirements |
|---|---|
| | There must be adequate vehicular access and there must be an adequate and legally enforceable agreement for vehicular access and maintenance. See SB4-1.3-04, Property Site, Disaster Mitigation, and Highest and Best Use, for additional information about privately maintained streets. |
| | Loans secured by existing manufactured homes are not eligible for purchase if the property has any of the following:<br>• incomplete items, such as a partially completed addition or renovation; or<br>• defects, damages or deficiencies that affect soundness or structural integrity.<br>The loan is not eligible for purchase until the necessary work is completed.<br>**Exception:**<br>Minor items that do not affect the ability to obtain an occupancy permit — such as landscaping, a driveway, or a walkway – may be excluded, provided all requirements and warranties for new or proposed construction are met, as outlined in SB4-1.2-05, Requirements for Verifying Completion and Postponed Improvements. |
| | Manufactured homes that have an addition or have had a structural modification are eligible under certain conditions. If the state in which the property is located requires inspection by a state agency to approve modifications to the property, then the lender is required to confirm that the property has met the requirement. However, if the state does not have this requirement, then the structural modification must be inspected and deemed structurally sound by a third party who is regulated by the state and is qualified to make the determination. In all cases, the satisfactory inspection report must be retained in the mortgage loan file. |

### MH Advantage Property Eligibility Requirements

MH Advantage is manufactured housing that is built to meet construction, architectural design, and energy efficiency standards that are more consistent with site-built homes.

Examples of the physical characteristics for MH Advantage include

- specific architectural and aesthetic features such as distinctive roof treatments (eaves and higher pitch roofline), masonry or poured concrete perimeter foundation, attached garage or carport, covered porch;

- construction elements including durability features, such as siding and cabinetry materials; and
- energy efficiency standards (minimum energy ratings apply).

Fannie Mae has agreements with manufacturers of homes intended to qualify for MH Advantage based on specific design criteria. The agreement may allow the manufacturers to apply an MH Advantage Sticker to single- or multi-section manufactured homes that meet the design criteria. With the exception of the lender requirements outlined below, lenders will not be required to independently determine the property's eligibility for MH Advantage.

The following table contains responsibilities for lenders and appraisers relating to MH Advantage loans.

| Requirements | |
|---|---|
| Lender | The lender must<br>• ensure the property meets the MH Advantage eligibility requirements by reviewing appraisal photos that show the MH Advantage Sticker or the CHOICEHome® label (placed in proximity to the HUD Data Plate),<br>• ensure that for existing construction, either the HUD Data Plate or the HUD Certification Label(s) is present, and<br>• ensure for new construction, both the HUD Data Plate and the HUD Certification Labels are present.<br>• verify through the URAR, the Restricted Appraisal Update Report, and/or Completion Report, completion alternatives or photos, that the property includes the following site and access features:<br>• Permanent Foundation<br>○ Meet HUD's Permanent Foundation Guide for Manufactured Housing<br>○ Engineered Foundation certified by a registered architect or professional engineer; and<br>○ Masonry or Poured Concrete Perimeter<br>• Elevation<br>○ Be a low-profile/residential set finished floor set<br>○ Not exceed 30 inches from the bottom of the first-floor joist to the exterior grade for the front or entry<br>○ Have a covered porch (minimum 72 sq. ft.)<br>• For a single-section MH Advantage or CHOICEHome with a date of manufacture after June 4, 2026, an attached garage or carport for new construction with space to accommodate at least one car. The exterior materials and finishes for the attached garage must be at least equivalent to the remainder of the structure.<br>• Driveway<br>○ Must lead to the home (or to the garage/carport if present).<br>○ Material must be blacktop, pavers, bricks, concrete, or cement. |

| | |
|---|---|
| | • Sidewalk<br>  ○ Must connect either the driveway or an attached garage/carport to the front entrance of the home.<br>  ○ Material must be blacktop, pavers, flagstone, bricks, concrete, or cement.<br>• Gutters and Downspouts<br>  ○ Verify that the property includes a gutter and downspout system to direct water away from the foundation and structure.<br><br>**Note:** Exception for an infill lot<br><br>If an existing infill lot for a new construction cannot accommodate an attached garage/carport, driveway, and/or sidewalk, the feature and/or site improvement is not required.<br><br>An infill lot is vacant or underutilized land located within a developed urban and suburban area, typically surrounded by existing buildings and infrastructure. It specifically excludes any lot located in a newly created or recently platted subdivisions.<br><br>• For new construction, the lender is responsible for compliance with Fannie Mae's standard appraisal requirements, specifically SB4-1.2-05, Requirements for Verifying Completion and Postponed Improvements and SB4-1.4-01, Factory-Built Housing: Manufactured Housing, for appraisals based on plans and specifications. This will ensure that site improvements that are not attached to the home, such as detached garages, are complete. |

| Requirements | |
|---|---|
| Appraisal | Standard valuation requirements for manufactured homes apply, including:<br>• SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report<br>• SB4-1.3-10, Cost and Income Approaches to Value<br>• SB4-1.4-01, Factory-Built Housing: Manufactured Housing<br>The Uniform Residential Appraisal Report, Completion Report, or completion alternative must include photos of the MH Advantage Sticker or the CHOICEHome® label, as applicable, and either the HUD Data Plate or the HUD Certification Label(s), and the site improvements showing all driveways, sidewalks, and detached structures located on the site.<br>**Note:** The requirement of photos of either the HUD Data Plate or the HUD Certification Label(s) applies to existing construction. (Both are required for new construction.) |

Unless stated otherwise, loans secured by manufactured homes that meet the MH Advantage criteria are subject to the same requirements that apply to all manufactured homes. (References to "manufactured homes" or "manufactured housing" apply to MH Advantage unless an exception is stated.)

Note that loans secured by MH Advantage properties are afforded a number of flexibilities over standard manufactured housing, including higher LTV ratios, standard mortgage insurance, reduced loan-level price adjustments, and the number of permitted ADUs. See the *Eligibility Matrix*, *Selling Guide* B7-1-02, Mortgage Insurance Coverage Requirements, and *Loan-Level Price Adjustment Matrix*, respectively, for additional information.

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### Modular, Prefabricated, Panelized, or Sectional Housing Eligibility

**Modular Homes**. Fannie Mae purchases loans secured by modular homes built in accordance with the International Residential Code administered by state agencies responsible for adopting and administering building code requirements for the state in which the modular home is installed.

**Prefabricated, Panelized, and Sectional Homes.** Loans secured by prefabricated, panelized, or sectional housing are eligible for purchase. These properties do not have to satisfy HUD's Federal Manufactured Home Construction and Safety Standards or the International Residential Codes that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be located.

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### Modular, Prefabricated, Panelized, or Sectional Housing Requirements

Factory-built housing such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for one-unit properties. These types of properties must

- be built of the same quality of materials as and assume the characteristics of site-built housing,
- be legally classified as real property, and

- conform to all local building codes in the jurisdiction in which they are permanently located.

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records and must represent a single real estate transaction under applicable state law. The lender is responsible for perfecting the real estate title and obtaining any needed title endorsements before selling the loan to Fannie Mae when a unit is titled as personal property similarly to manufactured homes.

All factory-built units must be permanently attached to a foundation that meets the standards for local building codes where the unit will be placed and in accordance with the recommendations prescribed by the unit's manufacturer (when applicable). If the unit had axles, wheels, tow hitch, or other hardware to facilitate ease of transportation to the site, the lender is responsible for ensuring that all such hardware is removed prior to selling the loan to Fannie Mae.

Fannie Mae treats modular, prefabricated, panelized, or sectional housing the same as site-built housing. Therefore, Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction details.

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### Modular Construction Techniques on Multi-Unit Buildings

Multi-unit buildings such as condos, co-ops, and townhomes may be constructed, in whole or in part, through the use of modular construction techniques. All buildings must conform to local building codes in the jurisdiction in which they are permanently located. Units in these buildings are provided the same treatment as units in multi-unit buildings constructed with site-built techniques.

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# SB2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates (08/05/2026)

### Introduction

This topic contains information on leasehold estates, including:


- Leasehold Estates
- Definitions
- General Requirements for Leasehold Mortgages
- Lease Requirements
- Ground Lease Renewal or Extension Options for Co-ops
- Borrower's Option to Purchase Fee Interest
- Exceptions to Leasehold Requirements


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### Leasehold Estates

Fannie Mae purchases or securitizes loans that are secured by properties subject to leasehold estates in areas in which this type of property ownership has received market acceptance.

Eligible property types are:

- one- to four-unit properties,
- condo units,
- co-op units,
- PUD units,
- manufactured homes located in a condo or PUD project approved by Fannie Mae's Project Review Eligibility Service (PERS). See SB4-2.2-04, Project Eligibility Review Service (PERS).

A loan secured by a unit in a project that is subject to a ground lease is considered a loan secured by a leasehold estate for purposes of this topic. For these loans, lenders must also comply with all legal and eligibility requirements for condos, co-ops, and PUDs. See *Selling Guide*, Chapter B4-2, Project Standards, for additional information.

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### Definitions

The following definitions apply to this topic:

- A loan secured by a leasehold estate is also known as a “leasehold mortgage.”
- The term “lease” includes any form of lease or ground lease (for example, a master lease, business lease, sublease, or unit lease), together with any addendum, amendment, or rider, or a memorandum thereof.
- The terms “lessor” and “lessee” includes sublessor and sublessee.
- For loans secured by units in projects subject to a ground lease:
    - The borrower may also be called the “unit lessee,” “unit mortgagor,” or “unit owner.”
    - The “ground lease” may also be called a “land lease” or “underlying lease.”
    - For co-ops, this topic does not apply to a borrower's “proprietary lease” or “occupancy agreement.”
    - For a loan secured by a unit in a project, the term “lender” does not refer to the project's blanket lender or blanket mortgagee, if applicable.

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## General Requirements for Leasehold Mortgages

The lender must comply with all requirements for leasehold mortgages. In addition, the lender agrees that in accordance with *Selling Guide* A2-2-07, Life-of-Loan Representations and Warranties, any failure to comply at any time with requirements in this topic is a breach of the life-of-loan representations and warranties if it impacts first-lien enforceability.

The following table provides general requirements for leasehold mortgages.

| ✓ | Requirements for Leasehold Mortgages |
|---|---|
| | The loan must be secured by a first lien in the property improvements and the borrower's rights in the leasehold interest in the land.<br>For co-op share loans, see *Selling Guide* B4-2.3-03, Legal Requirements for Co-op Projects and B4-2.3-04, Loan Eligibility for Co-op Share Loans.<br>**Note**: For loans sold to Fannie Mae with new leases entered into on or after Sept. 01, 2025: The fee estate must not be subject to any prior secured loans or other liens, unless the secured party or lienholder has agreed to recognize and not disturb the lease if it becomes the owner of the fee estate, as evidenced by an agreement recorded in the appropriate land records. |
| | The lease estate and the improvements must constitute real property and be subject to the mortgage lien.<br>For co-op share loans, see *Selling Guide* B4-2.3-03, Legal Requirements for Co-op Projects. |
| | The appraisal must meet the requirements in SB4-1.4-05, Leasehold Interests Appraisal Requirements. |
| | The loan must meet the applicable title insurance requirements in *Selling Guide* B7-2-04, Special Title Insurance Coverage Considerations. |
| | All rents, other payments, or assessments under the lease that have become due must be paid. |
| | The lease must not be in default under any provision of the lease and the lessor must not have claimed any such default. |
| | The lease must be recorded in the appropriate land records. |
| | The lease must be in full force and effect, and enforceable in all respects. |


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## Lease Requirements

The lender must ensure all leases associated with the subject property, regardless of the form of the lease (including a master lease, sublease, or unit lease) comply with the requirements below. The lessee (or sublessee, when applicable) must be the borrower, condo or PUD homeowners' association (HOA) or the co-op corporation. For manufactured homes located in a condo or PUD project approved by PERS, the HOA must be the lessee without any further sublessees.

Compliance with these lease requirements may be satisfied by:

- separate agreement(s) incorporated into the lease (e.g., addendum, amendment, or rider), or
- the project's constituent documents (project documents) (e.g., for co-ops, the Recognition Agreement or other agreement).

**Note**: For units in projects subject to a ground lease in which the HOA or co-op corporation is the lessee, the lender must ensure the lease complies with these lease requirements unless the project has been approved by Fannie Mae in Condo Project Manager (CPM).

Regardless of the lessee, the lender must ensure the terms of the lease address all of the following:

- The lease must have an unexpired term that exceeds the maturity date of the loan by five (5) years or more.

  **Note:** For exceptions applicable to co-op properties, see *Ground Lease Renewal or Extension Options for Co-ops* below.
- The lease must not preclude the borrower's membership or voting rights in the HOA or co-op corporation, as applicable.
- If the loan is secured by a sublease, a default under the master lease will not automatically result in the termination of the sublease.

The following table provides additional lease requirements depending on whether the borrower or the HOA or co-op corporation is the lessee.

| Lease Requirements if the Borrower is the Lessee | Lease Requirements if the HOA or Co-op Corporation is the Lessee |
|---|---|
| The lease must allow the lease for it (including the lessee's option to purchase) to be assigned, transferred, mortgaged, and subleased an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lease must not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.<br><br>The lease may include the following restrictions, if applicable:<br>• requirements related to Bureau of Indian Affairs (BIA) for leasehold mortgages on tribal lands, including approval of BIA and lessor. | No lease requirements relating to assignments, transfers, subleases or mortgages. |

| Lease Requirements if the Borrower is the Lessee | Lease Requirements if the HOA or Co-op Corporation is the Lessee |
|---|---|
| • limitations in accordance and compliance within *Selling Guide* B5-5.2-01, Loans With Resale Restrictions: General Information. | |
| The lease must provide protection of the lender's financial interests in the event of a condemnation or similar taking proceeding.<br>**Note**: If the lease provisions are silent or insufficient, the lender may rely on applicable state law or other written agreement that provides substantially the same protections. | See *Selling Guide* B4-2.2-02, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects and B4-2.3-03, Legal Requirements for Co-op Projects. |
| The lease must not include any default provisions that could result in forfeiture or termination of the lease, unless the lease provides the lender with:<br>• the right to receive notice of any lessee default under the lease, and<br>• at least 30 days, at the lender's option, to either cure the default, take over the lessee's rights under the lease, or commence foreclosure.<br>**Note**: If the property is located in Maryland, it is exempt from this requirement if applicable state law provides for the registration of residential leases with the state and requires the lessor to send written notice of default under the lease to the lender at least 30 days prior to the lessor filing an action for possession. | The lease or project documents must provide that the lender receives notice of any lessee default under the lease not more than 30 days after such default, and at least 30 days' prior notice of termination of the ground lease. |
| The lease must not include any provisions that allow the leasehold estate to be extinguished or otherwise impaired by any merger of title between the lessor and lessee without the lender's prior consent. | No lease requirements relating to extinguishment or impairment of the lessee's leasehold estate. |

### Ground Lease Renewal or Extension Options for Co-ops

Certain state laws (for example, New York Real Property Law § 233-c) may permit a co-op corporation (lessee) to exercise a ground lease renewal or extension right contained in the ground lease even if that lease limits when such right may be exercised.

Before the lender accepts a renewal or extension of a ground lease effected pursuant to state law, the lender must determine that the renewed or extended lease satisfies the minimum lease term requirement. Specifically, following the renewal or extension, the ground lease must have an unexpired term that extends at least five (5)

years beyond the maturity date of the loan. If this requirement is met, the lender may accept the renewal or extension. The lender must retain in the loan file documentation supporting its determination, including one of the following:

- A written acknowledgment or confirmation from the lessor that the renewal or extension has been validly exercised and is effective and legally binding on the lessor; or
- A written legal opinion or certification from legal counsel for the lessee co-op corporation confirming the following:
    - The ground lease grants the co-op corporation the option to renew or extend the term of the ground lease; and
    - The co-op corporation validly and timely exercised such option in accordance with the terms of the ground lease and in conformity with the applicable state law, and the renewal or extension is legally binding on the lessor under applicable law

**Note**: The lender must not rely on contingent, conditional, or unexercised renewal or extension options to satisfy the minimum lease term requirement.

### Borrower's Option to Purchase Fee Interest

The lease may, but is not required to, include an option for the borrower to purchase the fee interest in the land. If the option is included, the purchase must be at the borrower's sole option, and there can be no time limit within which the option must be exercised. If the option to purchase the fee title is exercised, the mortgage must become a lien on the fee title with the same degree of priority that it had on the leasehold. Both the lease and the option to purchase must be assignable, together, subject to permissible restrictions noted above.


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The following table provides requirements for establishing the purchase price of the land.

| Status of Property Improvements | Purchase Price of Land |
|---|---|
| Already constructed at the time the lease is executed. | The initial purchase price should be established as the appraised value of the land on the date the lease is executed. |
| Already constructed at the time the lease is executed, and the lease is tied to an external index, such as the Consumer Price Index (CPI). | The initial land rent should be established as a percentage of the appraised value of the land on the date that the lease is executed.<br>The purchase price may be adjusted annually during the term of the lease to reflect the percentage increase or decrease in the index from the preceding year.<br>Leases may be offered with or without a limitation on increases or decreases in the rent payments. |
| Will be constructed after the lease is executed. | The purchase price of the land should be the lower of the following:<br>• the current appraised value of the land, or<br>• the amount that results when the percentage of the total original appraised value that represented the land alone is applied to the current appraised value of the land and improvements.<br>For example, assume that the total original appraised value for a property was $160,000, and the land alone was valued at $40,000 (thus representing 25% of the total appraised value). If the current appraised value is $225,000, $50,000 for land and $175,000 for improvements, the purchase price would be $50,000 (the current appraised value of the land, because it is less than 25% of $225,000).<br>**Note**: If the lease is tied to an external index, the initial land value may not exceed 40% of the combined appraised value of the land and improvements. |

## Exceptions to Leasehold Requirements

Leasehold estates granted by community land trusts and high LTV refinance loans secured by leasehold estates are not subject to the requirements in this topic. See *Selling Guide* B5-5.3-02, Shared Equity Transactions: General Requirements, B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements and B5-7-01, High LTV Refinance Loan and Borrower Eligibility for additional information.

# SB2-3-04, Special Property Eligibility Considerations (11/04/2026)

## Introduction

This topic contains information on Fannie Mae's unique property eligibility requirements, including:


- Accessory Dwelling Units
- Multiple Parcels
- Mixed-Use Properties
- Hawaiian Lava Flow Zones
- Properties with Solar Panels


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## Accessory Dwelling Units

An accessory dwelling unit (ADU) is an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary dwelling. The ADU must provide for living, sleeping, cooking, and bathroom facilities and be on the same parcel as the primary dwelling.

The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.

The following table describes the number of ADUs allowed.

| Non-Manufactured Home | |
|---|---|
| One-unit principal residence not located in a condo project | Up to three ADUs allowed |
| One-unit principal residence in a condo project | One ADU allowed |
| Two-unit principal residence | Up to two ADUs allowed |
| Three-unit principal residence | One ADU allowed |

| | |
|---|---|
| Any four-unit dwelling, mixed-use property, second home, investment property, or unit in a co-op | No ADUs allowed |
| **Manufactured Home** | |
| One-unit principal residence single-section (excludes MH Advantage) | One ADU allowed |
| One-unit principal residence multi-section only or MH Advantage | Up to three ADUs allowed |
| Two-unit principal residence multi-section only or MH Advantage | Up to two ADUs |
| Three-unit principal residence multi-section only or MH Advantage | One ADU allowed |
| Any four-unit dwelling, mixed-use property, second home, investment property, or unit in a condo or co-op | No ADUs allowed |

**Note:** To determine qualifying rental income from an ADU see *Rental Income from an ADU on the Subject Property* in SB3-3.8-02, Rental Income from the Subject Property.

The following table describes the requirements for classifying an ADU.

| ✓ | Requirements |
|---|---|
| | • All ADU(s) must<br>○<br>○ have the following features separate from the primary dwelling:<br>▪ means of ingress/egress,<br>▪ kitchen,<br>▪ sleeping area,<br>▪ bathing area, and<br>▪ bathroom facilities.<br>○ For a one-unit dwelling, the ADU(s) must be subordinate in size to the primary dwelling. |
| | • The kitchen must, at a minimum, contain the following:<br>○ cabinets;<br>○ a countertop;<br>○ a sink with running water; and<br>○ a stove, built-in cooktop, or permanent hookup for these appliances (hotplates, microwaves, air fryers, or toaster ovens are not acceptable substitutes).<br>• An independent second kitchen by itself does not constitute an ADU.<br>• The removal of a stove or a built-in cooktop and leaving a permanent hookup (e.g., capping of the gas line) does not change the ADU classification. |
| | A borrower must qualify for the mortgage considering rental income as outlined in SB3-3.8-02, Rental Income from the Subject Property, for further information, see SB5-6-02, HomeReady Mortgage Underwriting Methods and Requirements for an exception for HomeReady mortgage loans. |

**Note:** See *Selling Guide* Chapter B7-3, Property and Flood Insurance for more information on the requirements for insuring properties with an ADU(s).

**Construction of an ADU**

The construction method of an ADU can be site- or factory-built, including single- or multi-section HUD Code manufactured homes that are legally classified as real property. If the ADU is a HUD Code manufactured home, the lender must verify the following:

- the property was built in compliance with the Federal Manufactured Home Construction and Safety Standards (established June 15, 1976, as amended and in force at the time the home was manufactured),
- it is attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance,

- the foundation system must be appropriate for the soil conditions for the site and meet local and state codes,
- it is encumbered by the mortgage with the primary dwelling,
- meets additional requirements that appear in HUD regulations in 24 C.F.R. Part 3280, and
- when the ADU is a single-or multi-section manufactured home, the home must no longer be classified as personal property, and all steps required to classify the home as real property must have been completed, at the time of sale of the loan to Fannie Mae.

Compliance with these standards must be evidenced by photos of the HUD Data Plate or HUD Certification Label(s) (for each section of the home) in the appraisal report. If the original or alternative documentation cannot be obtained for the HUD Data Plate or the HUD Certification Label(s), the loan is not eligible for sale to Fannie Mae. See SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing and MH Advantage Property Eligibility Requirements. For more information related to ADU requirements see SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report.

### Condo Projects with Units that Include ADUs

A condo unit containing one ADU meeting the requirements above is an eligible property type provided the ADU meets the following additional criteria:

The ADU

- is expressly permitted by the condo project's governing documents (e.g., covenants, conditions, and restrictions.
- is located on the same parcel as the primary condo unit.
- cannot be separately sold, financed, transferred, or owned apart from the primary condo unit.
- must secure the same mortgage loan and be subject to the same security instrument as the primary condo unit.

The presence of an ADU must not create commercial, mixed-use, or any other characteristic that would render the condo project ineligible.

See ***Selling Guide*** B4-2.1-03, Ineligible Projects.

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## Multiple Parcels

The table below provides the requirements for when the security property consists of more than one parcel of real estate.

| ✓ | Multiple Parcels Requirements |
|---|---|
| | Each parcel must be conveyed in its entirety. |
| | Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file. |

| | |
|---|---|
| | Each parcel must have the same basic zoning (for example, residential, agricultural). |
| | The entire property may contain only one primary dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. A primary dwelling built across both parcels where the lot line runs under the home is acceptable; however, an ADU built across parcels is not acceptable. |
| | The mortgage must be a valid first lien that covers each parcel. |

### Mixed-Use Properties

Fannie Mae purchases or securitizes mortgages that are secured by properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor's office.

The following special eligibility criteria must be met:

- The property must consist of only one- living unit that the borrower occupies as a principal residence.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential and any non-residential use must be subordinate to the residential use.
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.

See SB4-1.4-07, Appraisal Requirements for Mixed-Use Properties for appraisal considerations.

### Hawaiian Lava Flow Zones

Fannie Mae will only purchase or securitize mortgage loans secured by properties that are located within lava flow zones 3 through 9 on the island of Hawaii. Properties in lava flow zones 1 and 2 are not eligible due to the increased risk of property destruction from lava flows within these areas.

Hawaiian lava flow maps and other information are available online at the U.S. Geological Survey (USGS) Hawaiian Volcano Observatory website. The USGS lava flow zone must be reported for the subject property and comparable sales in the applicable section(s) of the appraisal report.

### Properties with Solar Panels

The ownership and debt financing structures commonly found with solar panels are key to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate. Common ownership or financing structures include:

- borrower-owned panels,
- leasing agreements,
- separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage); or
- power purchase agreements.

Fannie Mae will purchase or securitize a mortgage loan on a property with solar panels. If the borrower is, or will be, the owner of the solar panels (meaning the panels were a cash purchase, were included in the home purchase price, were otherwise financed and repaid in full, or are secured by the existing first mortgage), our standard requirements apply (for example, appraisal,

insurance, and title).

Properties with solar panels and other energy efficient items financed with a PACE loan are not eligible for delivery to Fannie Mae if the PACE loan is not paid in full prior to or at closing. For additional information, see *Selling Guide* B5-3.4-01, Property Assessed Clean Energy Loans.

Lenders are responsible for determining the ownership and any financing structure of the subject property's solar panels in order to properly underwrite the loan and maintain first lien position of the mortgage. When financing is involved, lenders may be able to make this determination by evaluating the borrower's credit report for solar-related debt and by asking the borrower for a copy of all related documentation for the loan. The lender must also review the title report to determine if the related debt is reflected in the land records associated with the subject property. If insufficient documentation is available and the ownership status of the panels is unclear, no value for the panels may be attributed to the property value on the appraisal report unless the lender obtains a Uniform Commercial Code (UCC) "personal property" search that confirms the solar panels are not claimed as collateral by any non-mortgage lender.

**Note:** A UCC financing statement that covers personal property and is not intended as a "fixture filing" must be filed in the office identified in the relevant state's adopted version of the UCC.

Lenders are responsible for ensuring the appraiser has accurate information about the ownership structure of the solar panels and that the appraisal report appropriately addresses any impact to the property's value. Separately financed solar panels must not contribute to the value of the property unless the related documents indicate the panels cannot be repossessed in the event of default on the associated financing. Any contributory value for owned or financed solar panels must comply with *Energy Efficiency Improvements* in SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report.

The following table summarizes some of the specific underwriting criteria that must be applied depending on the details of any non-mortgage financing for the solar panels.

| If the solar panels are... | Then the lender must... |
|---|---|
| Financed and collateralized -- the solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing* has been filed for the panels in the real estate records | • Obtain and review the credit report, title report, appraisal report, and/or UCC fixture filing*, related promissory note and related security agreement that reflect the terms of the secured loan;<br>• Include the debt obligation in the DTI ratio calculation;<br>• Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements); and<br>• Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation because a UCC fixture filing* is of record in the land records.<br>**Note:** If a UCC fixture filing* is in the land records as a priority senior to the mortgage loan, it must be subordinated. |

| If the solar panels are... | Then the lender must... |
|---|---|
| Financed and collateralized -- the solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels, but do not appear on the title report | • Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note or related security agreement);<br>• Include the debt obligation in the DTI ratio calculation;<br>• Instruct the appraiser not to provide contributory value of the solar panels towards the appraised value because the panels are collateral for another debt;<br>• Not include the panels in the LTV ratio calculation; and<br>• Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement or any UCC financing statement treat the panels as personal property not affixed to the home. |

*A fixture filing is a UCC-1 financing statement authorized and made in accordance with the UCC adopted in the state in which the related real property is located. It covers property that is, or will be, affixed to improvements to such real property. It contains both a description of the collateral that is, or is to be, affixed to that such property, and a description of such real property. It is filed in the same office that mortgages are recorded under the law of the state in which the real property is located. Filing in the land records provides notice to third parties, including title insurance companies, of the existence and perfection of a security interest in the fixture. If properly filed, the security interest in the described fixture has priority over the lien of a subsequently recorded mortgage.

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar lease arrangement, the following requirements apply (whether to the original agreement or as subsequently amended).

| ✓ | Lender Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement |
|---|---|
| | The lender must obtain and review copies of the lease or power purchase agreement. |


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| | |
|---|---|
| | The monthly lease payment must be included in the DTI ratio calculation unless the lease is structured to<br>• provide delivery of a specific amount of energy at a fixed payment during a given period, and<br>• have a production guarantee that compensates the borrower on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.<br>Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio. |
| | The value of the solar panels cannot be included in the appraised value of the property. |

| ✓ | Lender Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement |
|---|---|
| | The value of the solar panels must not be included in the LTV ratio calculation, even if a precautionary UCC filing is recorded because the documented lease or power purchase agreement status takes priority.<br>**Note:** A "precautionary" UCC filing is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement, and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title), as long as the loan is underwritten in accordance with this topic. |
| | The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority. |
| | The property must maintain access to an alternate source of electric power that meets community standards. |
| | The lease or power purchase agreement must indicate that<br>• any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home);<br>• the owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and<br>• in the event of foreclosure, the lender or assignee has the discretion to<br>  ○ terminate the lease/agreement and require the third-party owner to remove the equipment;<br>  ○ become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or<br>  ○ enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner. |
| | Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with *Selling Guide* B7-2-05, Title Exceptions and Impediments. |

# SB2-3-05, Properties Affected by a Disaster (09/03/2025)

## Introduction

This topic contains information on properties affected by a disaster, including:


- Overview
- Property Eligibility Requirements
- Value Acceptance Offers Following a Disaster
- Age of Documentation Requirements


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## Overview

The *Mortgage Selling and Servicing Contract* requires the lender to warrant for each loan sold to Fannie Mae that the property is not damaged by fire, wind, or other cause of loss and that there are no proceedings pending for the partial or total condemnation of the property. The lender also warrants that the loan conforms to all applicable requirements in the *Selling Guide*, including the requirement that the loan is an acceptable investment. Finally, the lender represents and warrants that it knows of nothing involving the loan or the property that can reasonably be expected to cause the loan to become delinquent or adversely affect the mortgage's value or marketability.

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## Property Eligibility Requirements

The lender must be able to make the warranties that are described above. Therefore, before delivery of a loan to Fannie Mae where the property may have been damaged by a disaster, the lender is expected to take prudent and reasonable actions to determine whether the condition of the property may have materially changed. The lender is responsible for determining if an inspection of the property and/or new appraisal is necessary to support this warranty. If a property is located in a condo or co-op project, both the condition of the unit and the condition of the building in which the unit is located must be assessed.

Lenders should use the following criteria when determining if the loan can be delivered to Fannie Mae:

- If the property has been damaged and the damage does not affect the soundness or structural integrity of the property and the repair items are covered by insurance, the lender may deliver the loan to Fannie Mae. In these circumstances, the lender must obtain documentation of the professional estimates of the repair costs and must ensure that sufficient funds are available for the borrower's benefit to guarantee the completion of the repairs.
- If the property was damaged and the damage is uninsured or the damage affects the soundness or structural integrity of the property, the property must be repaired before the loan is delivered to Fannie Mae.

These requirements are necessary to support the lender’s property representations and warranties and apply through the end of the delivery process which is the whole loan purchase date or MBS settlement date. For DU loan casefiles with a value acceptance or value acceptance + property data offer, the lender may exercise the offer as long as they have complied with the above requirements with regard to property condition and repairs. This applies in addition to the requirements in SB4-1.4-10, Value Acceptance and SB4-1.4-11, Value Acceptance + Property Data

**Note:** The above requirements do not apply to high LTV refinance loans. See *Selling Guide* B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan for additional information. For delivered loan requirements, see the *Servicing Guide*, Chapter D1-3.

DU is updated periodically to incorporate ZIP codes included in FEMA-Declared Disaster Areas eligible for Individual Assistance. Fannie Mae may also add areas impacted by other disasters or emergencies at its discretion. New loan casefiles for properties in those ZIP codes are excluded from consideration for a new value acceptance or value acceptance + property data offer.

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### Value Acceptance Offers Following a Disaster

After Fannie Mae has received an acceptable appraisal report that was performed following a disaster, that appraisal report can serve as the basis for a future value acceptance or value acceptance + property data offer. Lenders may exercise these offers in accordance with the requirements in SB4-1.4-10, Value Acceptance and SB4-1.4-11, Value Acceptance + Property Data.

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### Age of Documentation Requirements

When a loan is secured by a property located in a FEMA-Declared Disaster Area eligible for Individual Assistance, Fannie Mae provides the following additional flexibilities:

- The underwriting documentation, including credit reports and verifications of income and assets, must be dated no more than 180 days before the note date.
    - Lenders may disregard the message in the DU Underwriting Findings Report that indicates if the loan casefile has not already closed, the credit report has expired.
- An appraisal update is not required when the effective date of the appraisal report is dated no more than 180 days before the note date. Lenders must comply with the property eligibility requirements above.
- Lenders who wish to receive representation and warranty relief offered by the DU validation service must continue to comply with all conditions in the DU Underwriting Findings Report, including the close by date.
- Loans originated in accordance with the age of documentation flexibilities must be delivered to Fannie Mae no later than two years from the date of the disaster declaration by FEMA.

See SB5-4.2-02, Disaster-Related Limited Cash-Out Refinance Flexibilities for information related to certain flexibilities offered for a disaster related limited cash-out transaction.


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# SB3-3.8-01, General Rental Income Information (09/02/2026)

## Introduction

This topic provides information on qualifying a borrower's rental income, including:

- Associated Policies
- Ineligible Properties
- Eligibility Standards for Qualifying Rental Income
- Lease Agreements
- Treatment of Rental Income (or Loss)
- Rental Income Calculation Tools
- Reporting Monthly Gross Rental Income

## Associated Policies

In conjunction with the policies in this topic, lenders must also comply with, as applicable, but not limited to, the following policies in the *Selling Guide*:

- B2-2-03, Multiple Financed Properties for the Same Borrower;
- B3-3.1-01, General Income Information (Continuance of Income);
- B3-4.1-01, Minimum Reserve Requirements; and
- B3-6-06, Qualifying Impact of Other Real Estate Owned.

See also, DU Job Aids, for additional information on using income from rental property in DU.

## Ineligible Properties

Generally, rental income from the borrower's principal residence (a one-unit principal residence or the unit the borrower occupies in a two- to four-unit property) or a second home cannot be used to qualify the borrower. However, Fannie Mae does allow certain exceptions to this policy for boarder income and rental income on principal residence properties with accessory dwelling units. See *Selling Guide* B3-3.4-04, Boarder Income for additional requirements.

## Eligibility Standards for Qualifying Rental Income

Rental income is an acceptable source of stable income if it can be established that the income is likely to continue. The amount of rental income used to qualify may be restricted depending on whether the borrower currently has a housing payment and/or a history of property management experience.

*Housing Payment*

A housing payment is the total monthly expense amount the borrower(s) is currently making for the primary residence occupied by the borrower(s).

A housing payment must only include the following:

- rental housing payment,
- PITIA payment and/or leasehold payment for mortgaged properties, or
- property taxes and/or leasehold payments for non-mortgaged properties.

If not otherwise documented as one of the borrower's existing liabilities from the credit report, the lender must document the borrower's housing payment. Documentation may include, but is not limited to:

- direct verification of rent from a management company,
- minimum of six months bank statements reflecting payment to an organization or individual,
- minimum of six months cancelled checks or equivalent reflecting payment to an organization or individual, or

- evidence of payment of the latest property tax bill.

See *Selling Guide* B3-6-05, Monthly Debt Obligations for additional information.

*Property Management Experience*

Lenders may only use positive rental income for qualifying income if the borrower(s) has at least 12 months of property management experience.

The lender must establish the 12-month history of property management experience by obtaining one of the following:

- the borrower's most recent signed individual federal income tax return (IRS Form 1040), including Schedules 1 and E, reflecting rental income received for any property supporting 365 Fair Rental Days;
- the borrower's most recent signed federal business tax return(s) (IRS Forms 1065 or 1120S), including Form 8825 reflecting rental income received for any property supporting 365 Fair Rental Days; or
- when any property has been owned for at least one year, but Schedule E does not reflect 365 Fair Rental Days, then
  - the most recent signed lease agreement(s) reflecting a minimum of 12 months of rental income may be used to supplement the federal income tax return (IRS Form 1040); or
  - two years of the most recent federal income tax returns (IRS Form 1040), reflecting rental income received may be used to document the property was in service for the full year.

**Example:** If a short-term rental has been in service for more than one year but Schedule E reflects fewer than 365 Fair Rental Days in each tax year, or if the property was out of service during prior year, Schedule E must support this with a reduced number of Fair Rental Days and related repair costs.

**Note:** When none of the above scenarios apply, the lender may document property management experience using a fully executed lease agreement dated at least 12 months prior to the loan application date, provided the related property has not yet been reported on personal or business federal tax return(s).

The lender may only use qualifying rental income to offset the PITIA when borrowers have no prior property management experience, or less than 12 months of experience.

See SB3-3.8-02, Rental Income from the Subject Property, SB3-3.8-03, Rental Income from the Subject Property: Short-Term Rental, SB3-3.8-04, Rental Income from Non-Subject Property, SB3-3.8-05, Rental Income from Non-Subject Property: Departing Residence, and *Lease Agreements* below for further information.

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### Lease Agreements

The lender may only use a lease agreement to determine qualifying rental income from an investment property when one of the following scenarios applies:

- purchase transactions where there is an existing lease agreement(s) on the property that will be transferred to the borrower;
- the borrower purchased the rental property during or subsequent to the last tax return filing;
- the property experienced significant rental interruptions causing income to not be reported on the most recent tax return (for example, major renovation to a property occurred in the prior year that affected rental income);
- rental income is being used to qualify for any property placed in service in the current calendar year, or
- the lender determines that some other situation warrants the use of a lease agreement with appropriate explanation and justification in the loan file.

The lender is not permitted to use a lease agreement to determine qualifying rental income from an investment property in the following scenarios:

- the investment property is a departing residence, or
- for investment properties purchased within 45 days of the subject property.

See SB3-3.8-05, Rental Income from Non-Subject Property - Departing Residence or SB3-3.8-06, Rental Income from Non-Subject Property: Investment Properties Purchased within 45 Days of the Subject Property for additional information.

*Lease Agreement Requirements*

If the lender uses a lease agreement for determining qualifying income, the following requirements must be met:

- The rental payment on the lease must be reflected in U.S. dollars and cannot be in virtual currency.
- For newly executed lease agreements (dated within two months of the loan application), properties not reported on the personal federal tax return (IRS Form 1040) must contain a minimum term of at least six months, with the initial rental payment due on or before the first payment due date of the subject mortgage.

**Note:** For properties reported on the individual federal income tax return (IRS Form 1040) have no minimum term requirements.

The lender must also confirm lease agreements for subject and non-subject properties not reported on the borrower's most recent personal federal tax return (IRS Form 1040) satisfy the following requirements:

- The agreement(s) cannot be with an interested party or family member.
- The lender must obtain evidence that the terms of the lease have gone into effect by obtaining
    - The most recent two consecutive months of bank statements or electronic transfers of rent payments showing an identifiable rental amount for the related property that aligns with the lease agreement.
    - If the lease agreement is newly executed, in lieu of providing the most recent two consecutive months of bank statement or electronic transfer of rent payments, the lender may instead obtain copies of the security deposit and first full month's rent check/money orders with proof of deposit, or electronic transfers showing identifiable deposit and rental amounts.
    - Regardless of the age of the lease agreement, in lieu of providing the most recent two consecutive months of bank statement or electronic transfer of rent payments, the lender may instead obtain evidence of a property management agreement, not associated with the borrower or an interested party, along with proof of paid out rents for the most recent two consecutive months.

**Note:** Any variance between the documented rental income and the rental amount reflected in the lease agreement must be adequately explained by the borrower or property management company. The lender must retain all documentation to evidence the explanation in the loan file.

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### Treatment of the Rental Income (or Loss)

The treatment and amount and amount of monthly qualifying rental income varies depending on whether the borrower occupies the rental property as their principal residence.

If the rental income (or loss) relates to the borrower's principal residence

- The lender must add the monthly positive qualifying rental income to the borrower's total monthly income, and the full amount of the mortgage payment (PITIA) must be included in the borrower's total monthly obligations when calculating the DTI ratio. (The income cannot be netted against the PITIA of the property.)
- The lender must account for any rental loss by including the full PITIA amount as part of the borrower's monthly obligations when calculating the DTI ratio.

If the rental income (or loss) relates to a property other than the borrower's principal residence

- When the monthly qualifying rental income minus the full PITIA is positive, the lender must add it to the borrower's total monthly income.
- When the monthly qualifying rental income minus PITIA is negative, the lender must add the monthly net rental loss to the borrower's total monthly obligations.
- The full PITIA for the rental property must be factored into the amount of the net rental income (or loss); therefore, the lender must not include it as a monthly obligation.
- The lender must include the full monthly payment for the borrower's principal residence (full PITIA or monthly rent) as a monthly obligation.

**Note:** In cases where a borrower owns multiple rental properties, the rental income (or loss) for all non-subject properties must be calculated separately and then aggregated. The lender must add the aggregate amount to the borrower's total monthly income or include it in their monthly obligations (loss), as applicable.

See SB3-3.8-02, Rental Income from the Subject Property, SB3-3.8-03, Rental Income from the Subject Property: Short-Term Rental, SB3-3.8-04, Rental Income from Non-Subject Property, or SB3-3.8-05, Rental Income from Non-Subject Property: Departing Residence for additional information.

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### Rental Income Calculation Tools

Fannie Mae publishes four worksheets that lenders may use to calculate rental income. The Income Calculator may also be used to calculate certain rental income. Use of Income Calculator or these worksheets is optional. The worksheets are:

- Rental Income Worksheet – Principal Residence, 2– to 4–unit Property (Form 1037),Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 4 properties) (Form 1038), or
- Rental Income Worksheet – Individual Rental Income from Investment Property(s) (up to 10 properties) (Form 1038A).

See *Selling Guide* B3-3.1-03, Income Calculator, for additional information.

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### Reporting Monthly Gross Rental Income

The lender must report eligible monthly gross rent on the subject property to Fannie Mae in the loan delivery data for two- to four-unit principal residences and all investment properties, regardless of whether the borrower is using rental income to qualify for the loan.

If the borrower is **not** using any rental income from the subject property to qualify, the lender must only document monthly gross rent for lender reporting purposes, using one of the following sources (listed in order of preference):

- the appraisal report for a one- to four-unit residential property with the “Rental Income” section of the URAR provided none of the applicable appraisal and related information is dated 12 months or more prior to the date of the note;
- an opinion of market rents provided by the appraiser if the property is not currently rented; or
- a written statement from the borrower or inclusion of the monthly gross rent being charged (or to be charged) for the property on the Uniform Residential Loan Application if the file does not require the “Rental Income” section of the URAR. The monthly gross rental amounts must be stated for each unit in a two- to four-unit property.

The lender must retain all documentation used to support the amount of eligible rent reported in the loan file.


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# SB3-3.8-02, Rental Income from the Subject Property (09/02/2026)

This topic contains required documentation and rental income qualification criteria for a one- to four-unit subject property.

| Criteria | Requirements |
|---|---|
| **Eligibility** | The following property types are eligible:<br>• two-to four-unit principal residences, or<br>• one-to four-unit investment property, or<br>• one-unit Accessory Dwelling Unit (ADU) allowed with a one-unit primary residence only |
| **Documentation Required to Determine Monthly Gross Rental Income** | The lender must document the borrower's current housing payment to use any rental income from the subject property in qualifying.[1]<br><br>**Purchase:**<br><br>The lender must obtain the following:<br>• the "Rental Information" section of the URAR, and<br>• a copy of the fully executed lease agreement(s) when a lease is being transferred to the borrower.[2] and [3] This must be supported by the "Rental Information" section of the URAR.<br><br>If the current market rents do not reasonably support the gross rents reported on the lease agreement, the lender must:<br>• determine if additional documentation is necessary to support income stability, and<br>• provide a written analysis explaining the discrepancy, and to justify the determination that the rental income used in qualifying the borrower is stable and reasonably expected to continue; or<br>• use the lesser amount.<br><br>**Refinance:**<br><br>The lender must obtain the following:<br>• the "Rental Information" section of the URAR to support monthly gross rents,<br>• the most recent individual federal income tax returns (IRS Form 1040), including Schedules 1 and E, and<br>• copies of the current lease agreement(s) if the property meets one of the qualifying examples to justify the use of a lease agreement.[2]<br><br>In addition, the lender must also confirm the following:<br>• the lease or rental amount is supported by the "Rental Information" section of the URAR;<br>• documentation to support the terms of the lease are in effect[2], and the settlement statement or alternative documentation confirming the subject property's purchase or transfer of ownership date; or<br>• the repair expenses on Schedule E<br>  ○ reflect the costs for renovation or rehabilitation, |

[1] See *Eligibility Standards for Qualifying Rental Income* in SB3-3.8-01, General Rental Income Information for current housing payment requirements.

[2] See *Lease Agreements* in SB3-3.8-01, General Rental Income Information.

[3] See *Selling Guide* B2-1.5-03, Legal requirements and *Selling Guide* B7-2-05, Title Exceptions and Impediments, for additional information.

| Criteria | Requirements |
|---|---|
| | ○ confirm the number of Fair Rental Days is less than 365, and<br>○ support the amount of time the subject property was out of service.<br>If the current market rents do not reasonably support the gross rents reported on Schedule E or the lease agreement for either transaction type, the lender must<br>• determine if additional documentation is necessary to support income stability, and<br>• provide a written analysis explaining the discrepancy and justify the determination that the rental income used in qualifying the borrower is stable and reasonably expected to continue; or<br>• use the lesser amount. |
| **Determination of Qualifying Rental Income** | **Purchase:**<br>To determine adjusted net rental income (ANRI), the lender must<br>• multiply monthly gross rent by 75% for net rental income amount, then<br>• subtract the PITIA of subject property from the net rental income.<br>**Example:**<br>Gross monthly rent x .75 = Net Rental Income<br>Net Rental Income – PITIA = ANRI<br>When the borrower has 12 months or more of rental property management experience<br>• if ANRI is positive, the lender may use the full amount in qualifying.[4]<br>• if ANRI is negative, the lender must include the amount in the DTI ratio.[4]<br>When the borrower has less than 12 months of rental property management experience<br>• if ANRI is positive, then the lender may use the rental income to offset the PITIA only.[4]<br>• if ANRI is negative, the lender must include the amount in the DTI ratio.[4]<br>**Refinance:**<br>To determine the adjusted net rental income (ANRI)<br>• If the subject property is reported on Schedule E of the most recent individual federal income tax return (IRS Form 1040) and meets one of the qualifying examples to justify the use of a lease agreement[2], the lender must<br>○ calculate the net rental income by performing a cash flow analysis using Schedule E,<br>○ average the results over the number of months the property was in service[5], then<br>○ subtract the PITIA of the subject property.<br>• If the subject property is listed on Schedule E and the property does not meet one of the qualifying examples to justify the use of a lease agreement, the lender must<br>○ calculate net rental income by performing a cash flow analysis using Schedule E, and |

[4] See *Treatment of Rental Income (or Loss)* in SB3-3.8-01, General Rental Income Information.
[5] See *Rental Income Calculation Tools* in SB3-3.8-01, General Rental Income Information.

| Criteria | Requirements |
|---|---|
| | ○ average the results over 12 months.[5]<br>• If the subject property is not reported on Schedule E of the most recent individual federal income tax return (IRS Form 1040), the lender must<br>○ multiply the lease amount by 75% for net rental income amount, then<br>○ subtract the PITIA for the subject property.<br>When the borrower has 12 months or more of rental property management experience<br>• if ANRI is positive, the lender may use the full amount in qualifying.[4]<br>• if ANRI is negative, the lender must include the amount in the DTI ratio.[4]<br>When the borrower has less than 12 months of rental property management experience<br>• if ANRI is positive, the lender may use rental income to offset the PITIA only.[4]<br>• if ANRI is negative, the lender must include the amount in the DTI ratio.[4]<br>**Note:** Cashflow of the subject property equals the net amount on Schedule E plus any depreciation, interest, homeowners' association dues, taxes, or insurance expenses divided by the number of months as noted above. The lender may add back non-recurring property expenses, if documented accordingly. |
| ADU Limitations | The following limitations apply to properties with ADUs:<br>• Rental income is only allowed from one existing ADU.<br>• Purchase or limited cash-out refinance transactions only.<br>• The qualifying rental income amount from the ADU is limited to 30% of the total qualifying income. |

# SB3-3.8-03, Rental Income from the Subject Property: Short-Term Rental (09/02/2026)

This topic contains required documentation and qualification criteria for rental income derived from a one-unit subject property used as a short-term rental. A short-term rental is a furnished residential property rented for brief periods, typically less than 30 consecutive days, rather than standard long-term lease agreements.

| Criteria | Requirements |
|---|---|
| **Eligibility** | The following properties are eligible:<br>• One-unit investment properties only.<br>• The property must be legally permitted to operate as a short-term rental, including compliance with all applicable local registration and licensing requirements.<br>• Short-term rental income cannot be derived from an ADU. |
| **Documentation Required to Determine Monthly Gross Rental Income** | The lender must document the borrower's current housing payment to use any rental income from the subject property in qualifying.[1]<br>**Purchase:**<br>• The "Rental Information" section of the URAR must be completed based on standard long-term rentals, or<br>• The lender must obtain validated rental data for other short-term rentals from<br>  ○ Multiple Listing Service (MLS), or<br>  ○ property management companies.<br>Validated rental data must include:<br>• three comparable short-term rental properties. Comparable rental properties should be from within the same market area (including subdivision or project) as the subject property when possible;<br>• daily, weekly, and/or monthly rental rates for these comparables;<br>• number of days rented in the last calendar year; and<br>• relevant factors that could impact the property's use as a short-term rental, if applicable.<br><br>The lender must retain all documentation used to determine monthly market rents in the loan file.<br>**Refinance:**<br>• The most recent individual federal income tax returns (IRS Form 1040), which include Schedules 1 and E, regardless if the subject property is listed on the tax return.<br>• If the subject property is not yet reported on the most recent individual federal income tax returns (IRS Form 1040), the lender must also obtain the following:<br>  ○ the "Rental Information" section of the URAR completed based on |

| Criteria | Requirements |
|---|---|
| | standard long-term rentals, or<br>○ validated rental data for other short-term rentals from<br>▪ Multiple Listing Service (MLS), or<br>▪ property management companies.<br>Validated rental data must include:<br>• three comparable short-term rental properties. Comparable rental properties should be from within the same market area (including subdivision or project) as the subject property when possible;<br>• daily, weekly, and/or monthly rental rates for these comparables;<br>• number of days rented in the last calendar year; and<br>• any relevant factors that could impact the property's use as a short-term rental, if applicable. |
| **Determination of Qualifying Rental Income** | **Purchase:**<br>To determine adjusted net rental income (ANRI), the lender must select either<br>• the monthly market rent established by the "Rental Information" Section of the URAR, or<br>• the validated market rental rates obtained by third party sources.<br>To complete the calculation, the lender must<br>• multiply the monthly gross rental amount by 50% to determine the net rental income[5], then<br>• subtract the PITIA.<br>• (The remaining 50% accounts for vacancy losses and maintenance expenses.)<br>**Note:** To determine the monthly market rent for the validated rental data, the lender must<br>• average the daily, weekly, or monthly rental rate, from the three comparables, and<br>• multiply it by the average number of days rented from the same comparables.<br>**Example:**<br>Monthly market rent (URAR) OR third-party validated market rental rate x .50 = Net Rental Income<br>Net Rental Income – PITIA = ANRI<br>If ANRI is positive, the lender may use the rental income to offset the PITIA only.[4]<br>If ANRI is negative, the lender must include the amount in the DTI ratio.[4] |

| Criteria | Requirements |
|---|---|
| | **Refinance:**<br>To determine adjusted net rental income (ANRI)<br>• If the subject property is reported on Schedule E of the most recent individual federal income tax return (IRS Form 1040), the lender must:<br>  ○ calculate net rental income by performing a cash flow analysis[4] using Schedule E and average the results over 12 months, then<br>  ○ subtract PITIA of the subject property.<br>• If the subject property is not reported on Schedule E of the most recent individual federal income tax return (IRS Form 1040), the lender must:<br>  ○ multiply the monthly gross rental amount by 50%[5],<br>  ○ then subtract the PITIA of the property.<br><br>**Note:** To determine the monthly market rent for the validated rental data, the lender must<br>• average the daily, weekly, or monthly rental rate, from the three comparables, and<br>• multiply it by the average number of days rented from the same comparables.<br>If ANRI is positive, the lender may use the rental income to offset the PITIA only.[4]<br>If ANRI is negative, the lender must include the amount in the DTI ratio.[4]<br><br>**Note:** Cashflow of the subject property equals the net amount on Schedule E plus any depreciation, interest, homeowners' association dues, taxes, or insurance expenses divided by the number of months as noted above. The lender may add back non-recurring property expenses, if documented accordingly. |

# SB3-3.8-04, Rental Income from Non-Subject Property (09/02/2026)

This topic contains requirements for documentation and qualifying rental income from investment properties that are not the subject property. See separate requirements in SB3-3.8-05, Rental Income from Non-Subject Property: Departing Residence and SB3-3.8-06, Rental Income from Non-Subject Property: Investment Property Purchased within 45 Days of the Subject Property, if applicable.

| Criteria | Requirements |
|---|---|
| **Eligibility** | If the income is derived from a property that is not the subject property, there are no restrictions on the property type. For example, rental income from a commercial property owned by the borrower is acceptable if the documentation and qualification for the income meets all the requirements in this topic. |
| **Documentation Required to Determine Monthly Gross Rental Income** | The lender must document the following to use any rental income from the related property in qualifying:<br>• a current housing payment, unless the borrower has a minimum one-year history of receiving rental income from the related property;[1]<br>• the most recent individual federal income tax returns (IRS Form 1040), including Schedules 1 and E, regardless if the non-subject property is listed on the tax return; and<br>• copies of the current lease agreement(s) if the property meets one of the qualifying examples to justify the use of a lease agreement.[2]<br>In addition, the lender must also confirm<br>• documentation to support the terms of the lease are in effect[2], and the settlement statement or alternative documentation confirming the subject property's purchase or transfer of ownership date, or<br>• the repair expenses on Schedule E for the related property<br>  ○ reflect the costs for the renovation or rehabilitation,<br>  ○ confirm the number of Fair Rental Days is less than 365, and<br>  ○ support the amount of time the related property was out of service.<br>• If rental income is reported on Form 8825, the most recent signed federal business income tax return for a partnership or S corporation is required. This income must be reported as self-employment income.<br>**Note:** When ordinary income is also reported on Schedule K-1, along with IRS Form 8825 rental income, all documentation guidelines noted in *Selling Guide* B3-3.5-01, Underwriting Factors and Documentation for a Self-Employed Borrower or *Selling Guide* B3-3.4-19, Schedule K-1 Income <25% Ownership apply. |
| **Determination of Qualifying Rental Income** | To determine adjusted net rental income (ANRI), the lender must<br>• If the related property is reported on Schedule E of the most recent individual federal income tax return (IRS Form 1040) and the related property meets one of the qualifying examples to justify the use of a lease agreement[2], the lender must<br>  ○ calculate net rental income by performing a cash flow analysis using Schedule E,<br>  ○ average the results over the number of months the property was in |

| Criteria | Requirements |
|---|---|
| | service[5], then<br>○ subtract PITIA of the related property.<br>• If the related property is listed on Schedule E of the most recent individual federal income tax return (IRS Form 1040) and the property does not meet one of the qualifying examples to justify the use of a lease agreement, then the lender must<br>○ calculate net rental income by performing a cash flow analysis using Schedule E,<br>○ average the results over 12 months[5], then<br>○ subtract PITIA of the related property.<br>• If the related property is not reported on Schedule E of the most recent individual federal income tax return (IRS Form 1040), the lender must<br>○ multiply the lease amount by 75% to obtain the net rental income amount[5], then<br>○ subtract PITIA of the related property.<br>When the borrower has 12 months or more of rental property management experience<br>• if ANRI is positive, the lender may use the full amount in qualifying.[4]<br>• if ANRI is negative, the lender must include the amount in the DTI ratio.[4]<br>When the borrower has less than 12 months of rental property management experience<br>• if ANRI is positive, the lender may use rental income to offset the PITIA only.[4]<br>• if ANRI is negative, the lender must include the amount in the debt-to-income ratio.[4]<br>**Note:** Cashflow of the subject property equals the net amount on Schedule E plus any depreciation, interest, homeowners' association dues, taxes, or insurance expenses divided by the number of months as noted above. The lender may add back non-recurring property expenses, if documented accordingly. |
| **Offsetting Monthly Obligation for Rental Property Reported through a Partnership or an S Corporation** | If gross rents and related expenses are reported through a partnership or S corporation, the lender must evaluate any rental income (or loss) as self-employment income regardless of the borrower's percentage of ownership interest or whether the borrower is personally obligated on the mortgage debt.<br>If the related property is reported on the most recent federal business tax return and it is evident that the business is responsible for the payments, the lender may exclude the full PITIA from the DTI calculation when the related loan is current.<br>See also *Selling Guide* B3-3.7-01, Analyzing Partnership Returns for a Partnership or LLC and *Selling Guide* B3-3.7-02, Analyzing Returns for an S Corporation. |


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# SB3-3.8-05, Rental Income from the Non-Subject Property: Departing Residence (09/02/2026)

This topic contains requirements for documentation and qualifying rental income from a departing residence.

| Criteria | Requirements |
|---|---|
| **Eligibility** | A primary residence that will be vacated and converted to an investment property when the borrower purchases a new primary residence is eligible. |
| **Documentation Required to Determine Monthly Gross Rental Income** | The lender must document a current housing payment to use any rental income from the departing residence in qualifying[1] and must include all documentation used to determine monthly market rents in the loan file. Documentation may include:<br>• a complete appraisal report, that includes "Rental Information" section of the URAR, or<br>• a *Single-Family Comparable Rent Schedule* (Form 1007) for the occupied unit, or<br>• market analysis tools to determine the gross rental income amount, such as Zillow, Redfin, MLS, etc. When using these tools, the lender must obtain at least three comparable rental properties. Comparable rental properties should be from within the same market area (including subdivision or project) when possible. When the departing residence is a multi-unit property, the market analysis information should be limited to the borrower-occupied unit.<br>**Note:** Lease agreements **are not** permitted for any departing residence.<br>In addition, for a multi-unit property, the lender must obtain the most recent year of individual federal income tax returns (IRS Form 1040) to support rental income received for tenant occupied units. |
| **Determination of Qualifying Rental Income** | To determine adjusted net rental income (ANRI), the lender must<br>• multiply the monthly gross rent(s) by 75% for net rental income amount[5], then<br>• subtract the PITIA for the departing residence.<br>If ANRI is positive, the lender may use rental income to offset the departing residence PITIA only.[4]<br>If ANRI is negative, the lender must include the amount in the debt-to-income ratio.[4]<br>**Note:** For multi-unit departing residences, the lender must calculate the rental income for tenant occupied units in accordance with the rental income for non-subject property guidance and only apply the vacancy factor to the borrower-occupied unit.<br>See SB3-3.8-04, Rental Income from Non-Subject Property and *Treatment of Rental Income (or Loss)* in SB3-3.8-01, General Rental Income Information for additional information. |

| Criteria | Requirements |
| --- | --- |
| **Additional Reserves** | The lender must verify the borrower has six months of reserves to cover the PITIA obligation for the vacated property when the borrower has less than 12 months of property management experience.<br><br>**Note:** The six-month reserve requirement calculated by the lender is in addition to any reserves required for multiple-financed properties. Also, when converting a principal residence to an investment property, see SB3-6-06, Qualifying Impact of Other Real Estate Owned, for guidance in using that rental income to qualify the borrower. |


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# SB3-3.8-06, Rental Income from Non-Subject Property: Investment Properties Purchased within 45 Days of the Subject Property (09/02/2026)

This topic contains requirements for documentation and qualifying rental income for investment properties purchased within 45 days of the subject property application date.

| Criteria | Requirements |
|---|---|
| **Eligibility** | One- to four-unit investment properties are eligible. |
| **Documentation Required to Determine Monthly Gross Rental Income** | The lender must document a current housing payment to use any rental income in qualifying[1] and must include all documentation used to determine monthly market rents in the loan file. Documentation may include:<br>• a complete appraisal report for the non-subject property, including the "Rental Information" section of the URAR (Note: The appraisal report for the non-subject property may be from the original loan origination date); or<br>if no appraisal is available; then<br>• a *Single-Family Comparable Rent Schedule* (Form 1007) for a single unit property, or<br>• market analysis tools may be used on multi-unit properties to determine the gross rental income amount, such as Zillow, Redfin, MLS, etc. When using these tools, the lender must obtain at least three comparable properties. Comparable rental properties should be from within the same market area (including subdivision or project) when possible.<br>**Note**: Lease agreement(s) **are not** permitted for investment properties purchased within 45 days of the subject property. |
| **Determination of Qualifying Rental Income** | To determine adjusted net rental income (ANRI), the lender must<br>• multiply the monthly gross rent(s) by 75% for net rental income amount[5], then<br>• subtract the PITIA for the departing residence.<br>If ANRI is positive, the lender may use rental income to offset the departing residence PITIA only.[4]<br>If ANRI is negative, the lender must include the amount in the debt-to-income ratio.[4] |


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# SB3-6-06, Qualifying Impact of Other Real Estate Owned (09/02/2026)

## Introduction

This topic describes the qualifying impact of other real estate owned, including:

- Qualifying Considerations
- Mortgage Assumption
- Property Settlement Buyout
- Current Principal Residence Pending Sale

## Qualifying Considerations

When the borrower owns mortgaged real estate, the status of the property determines how the existing property's PITIA must be considered in qualifying for the new mortgage transaction. If the mortgaged property owned by the borrower is

- an existing investment property or a current principal residence converting to investment use, the borrower must be qualified in accordance with, but not limited to, the policies in topics SB3-3.8-02, Rental Income from the Subject Property, SB3-3.8-03, Rental Income from the Subject Property: Short-Term Rental, SB3-3.8-04 Rental Income from Non-Subject Property, SB3-3.8-05, Rental Income from Non-Subject Property: Departing Residence, *Selling Guide* B3-4.1-01, Minimum Reserve Requirements, and, if applicable *Selling Guide* B2-2-03, Multiple Financed Properties for the Same Borrower;
- an existing second home or a current principal residence converting to a second home, the PITIA of the second home must also be counted as part of the borrower's recurring monthly debt obligations; or
- the borrower's current principal residence that is pending sale but will not close (with title transfer to the new owner) prior to the subject transaction, the lender must comply with the policies in this topic.

In conjunction with the policies in this topic, the lender must also comply with the policies in *Selling Guide* B2-2-03, Multiple Financed Properties for the Same Borrower, SB3-3.8-01, General Rental Income Information, SB3-3.8-02, Rental Income from the Subject Property, SB3-3.8-03, Rental Income from Subject Property: Short-Term Rental, and SB3-3.8-04 Rental Income from Non-subject Property, SB3-3.8-05 Rental Income from Non-Subject Property: Departing Residence , and *Selling Guide* B3-4.1-01, Minimum Reserve Requirements, as applicable.

## Mortgage Assumption

When a borrower sells a mortgaged property and the property purchaser assumes the outstanding mortgage debt without a release of liability, the borrower has a contingent liability.

The lender is not required to count this contingent liability (PITIA) as part of the borrower’s recurring monthly debt obligations if the lender verifies that the property purchaser has at least a 12-month history of making regular, timely payments for the mortgage. The lender can document this by obtaining

- evidence of the transfer of ownership;
- a copy of the formal, executed assumption agreement; and
- a credit report indicating that consistent and timely payments were made for the assumed mortgage.

If the lender cannot document timely payments during the most recent 12-month period, the applicable mortgage payment must be counted as part of the borrower’s recurring monthly debt obligations.

## Property Settlement Buyout

When a borrower’s interest in a property is bought out by another co-owner of the property, as often happens in a divorce settlement, but the lender does not release the borrower from liability under the mortgage, the borrower has a contingent liability.

If the lender obtains documentation to confirm the transfer of title to the property, this liability does not have to be considered as part of the borrower’s recurring monthly debt obligations.

### Current Principal Residence Pending Sale

If the borrower's current principal residence is pending sale, but the transaction will not close with title transfer to the new owner prior to the subject transaction, and the borrower is purchasing a new principal residence, the current PITIA and the proposed PITIA must be used in qualifying the borrower for the new mortgage loan.

However, Fannie Mae will not require the current principal residence's PITIA to be used in qualifying the borrower as long as the following documentation is provided:

- the executed sales contract for the current residence, and
- confirmation that any financing contingencies have been cleared.


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# SB4-1.1-01, Definition of Market Value and Alternate Opinion(s) of Value (06/04/2025)

## Introduction

This topic contains information on the definition of market value and alternate opinion(s) of value.


- Overview
- Definition of Market Value
- Alternate Opinion(s) of Value


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## Overview

An opinion of market value that meets the market value definition below is required for Uniform Residential Appraisal Report (URAR). In addition to developing an opinion of market value for the subject property, the lender may also request an alternate opinion of value. The appraiser must develop and communicate each opinion of value in accordance with the Uniform Standards of Professional Appraisal Practice (USPAP).

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## Definition of Market Value

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale with the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what they consider to be in their own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

**Note**: Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable because the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar-for-dollar cost of the financing or concession, but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions.

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## Alternate Opinion(s) of Value

At times, the lender may need the appraiser to provide an alternate opinion of value. These situations include but are not limited to a quick sale (liquidation) value, resale restrictions (e.g., affordable housing units), or a loan program that requires a "subject to" and "as is" value. Each alternate opinion of value must be completed in accordance with USPAP and reported within the Client Requested Conditions subsection within the Reconciliation section of the URAR. For more information see SB4-1.3-11, Valuation Analysis and Reconciliation.

When providing an alternate opinion of value, the appraiser must identify the corresponding value condition, marketing or exposure time, and duration. In addition, the appraiser must explain, support, and reconcile their alternate value opinion in the


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requested condition commentary section. If the alternate opinion of value does not meet the definition of market value, then the appraiser must also identify the type and definition of value developed within their commentary.

# SB4-1.1-02, Lender Responsibilities (09/03/2025)

## Introduction

This topic contains information on lender requirements, including:

- Lender Responsibilities
- Confirmation and Documentation of the Current Owner
- Objective and Unbiased Appraisals
- Reporting Unfavorable Conditions

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## Lender Responsibilities

The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Fannie Mae requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property. Some loans may be eligible for a value acceptance option, and an appraisal is not required if the lender exercises the option and complies with the related requirements. (See SB4-1.4-10, Value Acceptance and SB4-1.4-11, Value Acceptance + Property Data, for additional information.)

If an appraisal is obtained, the lender is responsible for

- providing the borrower disclosures and requirements described in SB4-1.3-12, Appraisal Quality Matters;
- compliance with the *Appraiser Independence Requirements;*
- selection of the appraiser (see SB4-1.1-03, Appraiser Selection Criteria);
- compliance with the Uniform Appraisal Dataset (UAD) when applicable (see SB4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP));
- ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy;
- successful submission of the appraisal report through the UCDP prior to sale of the loan (see SB4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP));
- continually evaluating the appraiser's work through the quality control process (see SB4-1.3-12, Appraisal Quality Matters and *Selling Guide* D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection); and
- ensuring the appraisal report does not contain subjective and prohibited language relating to discriminatory practices and appraisal bias (see SB4-1.1-04, Unacceptable Appraisal Practices).

If the transaction involves property data collection, the lender is responsible for

- compliance with the *Property Data Collector Independence Requirements;*
- selection of the property data collector (see SB4-1.4-11, Value Acceptance + Property Data);
- successful submission of the data to Fannie Mae's Property Data API prior to loan delivery; and
- continually evaluating the property data collector's work through the quality control process (see *Selling Guide* D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection).

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## Confirmation and Documentation of the Current Owner

Publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value. The lender must confirm that the property seller in a purchase transaction (or the borrower in a refinance transaction) is the owner of the subject property.


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Lenders must confirm and document in the loan file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required. Examples of acceptable documentation include, but are not limited to:

- a copy of a recorded deed, mortgage, or deed of trust,
- a recent property tax bill or tax assessment notice,
- a title report,
- a title commitment or binder, or
- a property sale history report.

This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing, and closing.

When the transaction is part of an employee relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. Additionally, the appraiser must comment on this condition in the appraisal report.

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### Objective and Unbiased Appraisals

A lender must ensure the appraiser

- described the property and the market area in factual, unbiased, and specific terms;
- considered all factors that have an effect on value; and
- was objective and unbiased in the development of the opinion of market value in the appraisal report.

A number of federal, state, and local laws prohibit discrimination in the appraisal of housing. Fannie Mae expects professional appraisers to fully understand that discriminatory valuation and appraisal reporting practices are not only illegal, but also unethical. Unintentional discrimination can occur in the appraisal report as the result of what an appraiser states or fails to state. The lender and appraiser must ensure the appraisal is not in violation of any unacceptable appraisal practices (see SB4-1.1-04, Unacceptable Appraisal Practices).

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### Reporting Unfavorable Conditions

The lender must ensure that appraiser comments regarding unfavorable conditions, such as the existence of an adverse environmental or economic factor, also discuss how the condition affects the value or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser's analysis must reflect and include comparable sales that are similarly affected whenever possible. The appraiser must address the impact these factors may have, if any, on the value and marketability of the subject property. (See SB4-1.3-06, Dwelling Condition and Quality of Construction, for further information).


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# SB4-1.1-03, Appraiser Selection Criteria (06/04/2025)

## Introduction

This topic contains general information on appraiser selection, including:


- Appraiser Credentials
- Appraiser Trainees and Individuals Providing Significant Real Property Appraisal Assistance
- Knowledge and Experience
- Selection of the Appraiser
- Supervisory Appraiser


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## Appraiser Credentials

Fannie Mae requires a lender (or its authorized agent) to use appraisers or supervisory appraisers that are state-licensed or state-certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws). The lender (or its authorized agent) must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law. The lender must ensure that the state credential is active as of the effective date of the appraisal report. The appraiser must note their credential number on the individual appraisal reports, in compliance with the Uniform Appraisal Dataset (UAD) Specifications.

The appraisal reports identify the appraiser as the individual who

- developed the opinion of value, and
- signed the appraiser certification as the appraiser.

## Appraiser Trainees and Individuals Providing Significant Real Property Appraisal Assistance

Fannie Mae allows an appraiser trainee (or other similar classification) to perform a significant amount of the appraisal or the entire appraisal when they are qualified to do so.

When an appraiser trainee (licensed or unlicensed) has the requisite knowledge and develops the opinion of value, they must:

- sign the appraiser certification as the appraiser accepting responsibility for all elements of the report,
- indicate whether they did or did not personally inspect the subject property, and
- have a supervisory appraiser review their work and sign the supervisory appraiser certifications as acceptable under state law.

When an appraiser trainee (licensed or unlicensed) provides significant real property appraisal assistance but does not develop the opinion of value, they must:

- work under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor;
- be named in the appraiser certification, and the signing appraiser must certify that the individual named is qualified to perform the assistance;
- not sign the appraiser certification; and
- be acceptable under state law.

If the jurisdiction does not provide credential numbers for appraiser trainees, the Credential Type selected in the appraisal report should be “None.”

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### Knowledge and Experience

Lenders must use appraisers that

- have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type; and
- have the requisite knowledge about, and access to, all necessary and appropriate local data sources for the subject property's geographic area, including multiple listing service(s) and government records.

Appraisers that are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser that does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, Fannie Mae does not allow the USPAP flexibility.

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### Selection of the Appraiser

The lender

- is responsible for the selection of appraisers and for the qualifications and quality of work provided by the appraisers that are selected.
- may not use appraisals ordered or received by borrowers or other parties with an interest in the transaction, such as the property seller or real estate agent. Fannie Mae does allow lenders to use third-party vendors (for example, appraisal management companies) to manage the appraiser selection process. However, it should be noted that if a lender enters into a contract with any vendor, contractor, or third-party service provider, the lender is accountable for the quality of the work performed as if it was performed by an employee of the lender.

The lender (or its authorized agent) must

- establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements, including the *Appraiser Independence Requirements.*
- ensure that an appraiser has demonstrated the ability to perform high-quality appraisals before using an appraiser's services. The quality of an appraiser's work is a key criterion that must be used in determining which appraiser the lender (or its authorized agent) uses for its assignments. The requirement for an appraiser to produce a high-quality work product must always outweigh fee or turnaround time considerations.
- develop and maintain a documented process to monitor the appraisers it uses. The process (at a minimum) must include an annual review of an appraiser's state licensing or certification status and a procedure for suspending or terminating business with individual appraisers. Additionally, the lender must have a procedure for referring appraisers to the applicable state appraiser licensing and regulatory board.

Delegating these responsibilities to a third party does not relieve the lender of its responsibilities related to appraiser independence requirements, the appraisal or the value, condition, and marketability of the property. See SB4-1.3-12, Appraisal Quality Matters, for information related to ongoing review of appraisals.

**Note**: Fannie Mae does not approve appraisers. Therefore, when selecting appraisers, lenders must not give any consideration to an appraiser's representation that they are approved or qualified by Fannie Mae.

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### Supervisory Appraiser

When a supervisory appraiser is used, the supervisory appraiser must sign the appraisal report and certify they:

- did or did not personally inspect the subject property or comparable sales,
- directly supervised the appraiser that prepared the appraisal report,

- reviewed the appraisal report,
- agree with the statements and conclusions of the appraiser,
- agree to be bound by certifications as set forth in Fannie Mae's appraisal report, and
- take full responsibility for all elements of the certification, for the assignment results, and for the contents of the appraisal report.

# SB4-1.1-04, Unacceptable Appraisal Practices (06/04/2025)

## Introduction

This topic contains examples of unacceptable practices, many of which are reflected in the appraiser's certifications on the appraisal reports.


- Unacceptable Appraisal Practices


## Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- development of or reporting an opinion of market value (including responses to requests for a borrower-initiated reconsideration of value) that is not supportable by market data or is misleading;
- development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, or familial status, or including a reference to any protected class, of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- reference to crime rate or related data;
- use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
    - "pride of ownership," "no pride of ownership," and "lack of pride of ownership";
    - "poor neighborhood";
    - "good neighborhood";
    - "crime" (and its variants);
    - "desirable neighborhood or location"; or
    - "undesirable neighborhood or location";
- development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;
- failure to comment on negative impacts with respect to the subject market area, the subject property, or proximity of the subject property to adverse influences;
- failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales and transfers of the subject property and the comparable sales;
- selection and use of inappropriate comparable sales;
- failure to use comparable sales that are the most locationally and physically similar to the subject property;
- creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
- use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
- not supporting adjustments in the sales comparison approach;
- failure to make market-derived adjustments, including time adjustments, when they are clearly indicated;
- use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source;
- development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
- development of or reporting an appraisal in a manner that is inconsistent with the requirements of the Uniform Standards of Professional Appraisal Practice (USPAP).


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# SB4-1.1-05, Disclosure of Information to Appraisers (06/04/2025)

## Introduction

This topic contains information on lender disclosure of information to appraisers, including:


- Overview
- Sales Contract Information
- Information Disclosed to the Appraiser
- Contract Changes After the Appraisal is Completed


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## Overview

All information about the subject property the lender is aware of must be disclosed to the appraiser and the details provided must comply with SB4-1.1-04, Unacceptable Appraisal Practices. The appraiser must determine if the information could affect either the marketability or the opinion of value for the property.

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## Sales Contract Information

All financing data and sales concessions for the subject property that will be or have been granted by anyone associated with the transaction must be disclosed to the appraiser, as appropriate. Typically, this information is provided in the sales contract. Therefore, the lender must provide, or ensure that the appraiser is provided with, a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised.

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## Information Disclosed to the Appraiser

Financial Information
The list below includes items that must be disclosed to the appraiser on purchase transactions, if applicable:

- settlement charges,
- loan fees or charges,
- discounts to the sales price,
- interest rate buydowns,
- below-market-rate financing,
- terms of any subordinate financing provided by interested parties,
- credits or refunds of borrower expenses,
- absorption of monthly payments,
- assignment of rent payments, and
- any other information not listed above that impacts property value.

**Property Information**

The list below includes items that must be disclosed, if applicable:

- condo or PUD fees;
- non-realty items included in the transaction;
- any apparent environmental conditions in or on the subject property or in the vicinity of the property that the lender is aware of or learns from the borrower, the real estate agent, or any other party to the transaction (see SB4-1.4-08, Apparent Environmental Conditions); and


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- any other items that affect the soundness or structural integrity of the property of which the lender may be aware.

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### Contract Changes After the Appraisal Report is Completed

If the contract is amended *after* the effective date of the appraisal report in a way that does not affect the description of the property, then the lender is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

- sale price,
- transaction terms,
- financing concessions,
- seller-paid closing costs,
- names or initials,
- closing date, and
- correction of minor clerical errors such as misspellings.

# SB4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (6/04/2025)

### Introduction

This topic contains information on the Uniform Appraisal Dataset and the Uniform Collateral Data Portal, including:

- Uniform Appraisal Dataset
- Uniform Collateral Data Portal

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### Uniform Appraisal Dataset

The Uniform Appraisal Dataset (UAD) is a standardized industry dataset for appraisal information that is transmitted electronically through the Uniform Collateral Data Portal® (UCDP®). Fannie Mae requires all appraisal and completion reports submitted through UCDP to meet the Uniform Appraisal Dataset Specification provided in the applicable guide below:

- *Appendix F-1: URAR Reference Guide*
- *Appendix F-2: Restricted Appraisal Update Report Reference Guide*
- *Appendix F-3: Completion Report Reference Guide*

Lenders may obtain the most recent version of the Uniform Appraisal Dataset Specification, its appendices, and additional information on Fannie Mae's website.

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### Uniform Collateral Data Portal

The UCDP is a portal through which lenders are required to electronically submit appraisal reports for conventional loans sold to Fannie Mae. All appraisal and completion reports, including exhibits and photographs, must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to sale of the loan to Fannie Mae.

If there are subsequent revisions to the appraisal report, the final version of the report that was utilized in making the underwriting decision must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to sale of the loan to Fannie Mae. When submitting an appraisal report through UCDP, lenders must ensure it is the unaltered report submitted by the identified appraiser.

Additionally, for loans that require an appraisal, lenders must ensure the appraised value as indicated on the appraisal submitted to UCDP matches the appraised value as reported at sale of the loan. An exception is allowed for this requirement when the appraisal used to underwrite the loan is a desk or field review of an existing appraisal because those types of reports cannot be submitted through the UCDP. In those instances, the appraised value reported at sale of the loan will reflect the value as stated in the desk or field review. However, the original appraisal that was the subject of review must have been submitted to UCDP. Lenders must maintain the applicable appraisal report and attachments in the loan file as part of the underwriting documents in accordance with *Selling Guide* A2-4.1-02, Ownership and Retention of Loan Files and Records. Lenders may obtain detailed information on the UCDP page on Fannie Mae's website.

# SB4-1.2-01, Appraisal Reports and Exhibits (12/10/2025)

## Introduction

This topic contains information on appraisal reports and exhibits, including:

- Scope of Work
- Property Valuation Methods and Property Types
- Exhibits for the Uniform Residential Appraisal Report
- Appraiser Certifications and Limiting Conditions

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## Scope of Work

Appraisers must use the most recent version of the Uniform Residential Appraisal Report (URAR) and include any other information, either as an image or text in the related section of the report, needed to adequately support the opinion of market value. Although the scope of work for the appraisal or the extent of the appraisal process is guided by Fannie Mae's appraisal reports, the report does not limit or control the appraisal process. The appraiser's analysis should go beyond any limitations of the URAR, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

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## Property Valuation Methods and Property Types

For certain loan casefiles, DU offers a traditional appraisal, hybrid appraisal, and/or a desktop appraisal option. Lenders must determine eligibility for the property valuation method based on the criteria of the loan transaction.

The property valuation method is based on the scope of work performed by the appraiser. Below is a description of each property valuation method:

- Traditional Appraisal: An appraisal assignment for which the scope of work includes an interior and exterior on-site inspection of the subject property completed by the appraiser who signs the appraisal report. The effective date of the traditional appraisal is the date of inspection.

- Hybrid Appraisal: An appraisal assignment for which the scope of work includes using a recent collection of property data in lieu of the appraiser performing an on-site inspection. The collection of property data must comply with the Uniform Property Dataset (UPD). The effective date of the hybrid appraisal is the date the appraiser develops the opinion of value.

- Desktop Appraisal: An appraisal assignment for which the scope of work includes using third party data sources, other than a recent collection of property data, in lieu of an appraiser performing an on-site inspection. The effective date of the desktop appraisal is the date the appraiser develops the opinion of value.

**Note:** An on-site inspection is defined as a person being physically at a property gathering information as part of an appraisal; remotely viewing a property (otherwise known as a virtual inspection) is not an on-site inspection.

The table below provides an overview of property types, including their descriptions and the property valuation method(s).


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| Property type | Description | Property Valuation Method(s) |
|---|---|---|
| Single Family | One-unit detached, attached, or semi-detached properties and one-unit dwellings with a conforming or non-conforming accessory dwelling unit(s) (ADUs), including properties in a planned unit development (PUD). | • Traditional Appraisal<br>• Hybrid Appraisal*<br>• Desktop Appraisal** |
| Condominium | One-unit attached and detached properties in a condominium project. | • Traditional Appraisal<br>• Hybrid Appraisal* |
| Manufactured Home | One-to four-unit single- and multi-section s t a n d a r d manufactured homes.<br>MH Advantage properties consisting of single- and multi-sections. | Traditional Appraisal |
| Cooperative | One-unit properties in a co-op project. | Traditional Appraisal |
| Two- to four-unit | Two- to four-unit properties (including properties in a PUD, condo, or co-op project). | Traditional Appraisal |

* See SB4-1.2-03, Hybrid Appraisals for eligible transactions.
** See SB4-1.2-02, Desktop Appraisals for eligible transactions.

### Exhibits for the Uniform Residential Appraisal Report

The exhibits in the following table must accompany the appraisal report. In addition to these requirements, the appraiser is expected to include any additional commentary or exhibits, as needed, to adequately support the opinion of market value.

| Exhibit | Requirements |
|---|---|
| Floor plan or footprint sketch and calculations | A floor plan is required for the following:<br>• all property data collections,<br>• hybrid appraisals,<br>• desktop appraisals, and<br>• traditional appraisals when the layout of the dwelling unit(s) is atypical or functionally obsolete, limiting the appeal of the property in comparison to competitive properties in the market area.<br>A footprint sketch can only be used for a traditional appraisal if the layout of the dwelling unit(s) is not atypical or functionally obsolete. |

| | |
|---|---|
| | A separate floor plan or footprint sketch that includes legible exterior dimensions reported to the nearest tenth of a foot, and room labels must be provided for each additional structure including ADUs.<br><br>For a unit in an apartment/multifamily condo or co-op project building, the floor plan or footprint sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for unit square footage(s) shown in the project documents are acceptable). See *Above- and Below- Grade Area(s)* in SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report, for additional information.<br><br>For complete descriptions of a floor plan or footprint sketch, see SE-3-06, Acronyms and Glossary of Defined Terms: F. |
| Street map | A map showing the location of the subject property and the comparables used in the appraisal report. |
| Exterior photographs | Clear, descriptive color photographs showing the front, back, and street scene of the subject property and the front of each comparable. If the subject property has multiple dwellings on site, then a front photo of each dwelling is required.<br><br>Additional photographs are required when the subject property has any of the following:<br>• a non-residential use,<br>• an outbuilding,<br>• water frontage with private access,<br>• views that impact value or marketability, or<br>• a physical defect, damage, or deficiency.<br><br>The subject property and all comparables must be appropriately identified and described.<br>Photographs of comparable rentals utilized in the appraisal report are not required. |
| Interior photographs | At a minimum, the appraisal report must include interior photographs of the following parts of the subject property:<br><br>• all kitchens;<br>• all bathrooms;<br>• main living areas of the property (such as living room, family room, dining room, all bedrooms, etc.);<br>• below-grade area(s), including all finished and unfinished rooms;<br>• any physical defect, damage, and deficiency, if present; and<br>• examples of recent updates, such as restoration, remodeling, and renovation, if present.<br><br>**Note**: Interior photographs of proposed or under construction properties may be taken at the time of the completion inspection and included with the Completion Report. |

**Note:** For the Restricted Appraisal Update Report, a photograph of the front of the subject property must be included. See SB4-1.2-04, Age of Appraisal and Restricted Appraisal Update Requirements for additional requirements. For Completion Report requirements and exhibits, see SB4-1.2-05, Requirements for Verifying Completion and Postponed Improvements.

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### Appraiser Certifications and Limiting Conditions

Each Fannie Mae appraisal report includes an appraiser's certification (and, if applicable, a supervisory appraiser's certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.
The appraiser may not make changes or deletions to the existing certifications; however, the appraiser may supplement or make additional certifications. Acceptable additional certifications might include:

- those required by state law;
- those related to the appraiser's continuing education or membership in an appraisal organization; or
- those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.

Lenders are responsible for reviewing any additional certifications made by appraisers to ensure that they do not conflict with Fannie Mae's policies or standard certifications in the appraisal report.

# SB4-1.2-02, Desktop Appraisals (12/10/2025)

## Introduction

This topic contains information on desktop appraisals, including:


- Overview
- Completing the Desktop Appraisal
- Eligible Transactions
- Ineligible Transactions
- Representations and Warranties


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## Overview

For certain loan casefiles, DU offers desktop appraisals. A desktop appraisal reported on the Uniform Residential Appraisal Report is permitted for certain transactions. The minimum scope of work for a desktop appraisal includes using third party data sources, other than a property data collection, in lieu of an appraiser performing an on-site personal inspection. The appraiser relies on data obtained from alternative methods or sources to identify property characteristics, including condition.

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## Completing the Desktop Appraisal

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.

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.

The lender remains responsible for the description of the property, and the accuracy of all data on the appraisal that pertains to the property. This includes the property's condition and quality ratings. The lender is also responsible for ensuring the property meets the property eligibility requirements in this *Selling Guide*. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

**Exhibits:** Desktop appraisals require the same exhibits as traditional appraisals, including a floor plan. The Square Footage-Method for Calculating: ANSI® Z765-2021 is not required for desktop appraisals but is encouraged when feasible. See SB4-1.2-01, Appraisal Reports and Exhibits for additional information.

**DU Messaging:** For loan casefiles that are eligible for a desktop appraisal option, DU will issue a message informing the lender they can obtain a desktop appraisal. DU will also issue messages for other eligible appraisal options. The lender may select from any of the options presented, which may include a desktop appraisal, hybrid appraisal, or traditional appraisal.

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### Eligible Transactions

To be eligible for a desktop appraisal, transactions must meet the following criteria:

- one-unit property (including those with an ADU(s) and units in a PUD),
- principal residence,
- purchase transaction (including new construction),
- LTV ratio less than or equal to 90%, and
- DU loan casefile that receives an Approve/Eligible recommendation.

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### Ineligible Transactions

The following transactions are not eligible for a desktop appraisal:

- two- to four-unit properties;
- condo and co-op units;
- manufactured homes;
- construction-to-permanent loans (single-close and two-close);
- second homes and investment properties;
- all refinances;
- HomeReady, HomeStyle Renovation, and HomeStyle Refresh loans;
- Community Seconds with a subsidized sales price;
- community land trusts, or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

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### Representations and Warranties

When a desktop appraisal is submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a desktop appraisal that receive a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal and value of the subject property (see *Selling Guide* A2-2-06, Representations and Warranties on Property Value, for complete requirements and additional information).


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# SB4-1.2-03, Hybrid Appraisals (12/10/2025)

## Introduction

This topic contains information on hybrid appraisals, including:


- Overview
- Completing the Hybrid Appraisal
- Eligible Transactions
- Ineligible Transactions
- Exercising Hybrid Appraisals
- Representations and Warranties


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## Overview

For certain loan casefiles, DU offers hybrid appraisals. A hybrid appraisal reported on the *Uniform Residential Appraisal Report* is permitted for certain transactions. As with all other appraisals, it must conform to SB4-1.1-04, Unacceptable Appraisal Practices. The minimum scope of work for a hybrid appraisal includes using a recent interior and exterior property data collection in lieu of the appraiser performing an on-site inspection. The appraiser relies on the data collected (and other sources if needed) to identify property characteristics, including condition. The property data collection must comply with the Uniform Property Dataset and be delivered to the Fannie Mae Property Data API. See SB4-1.4-11, Value Acceptance + Property Data, for property data collection and property data collector requirements.

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## Completing the Hybrid Appraisal

Property data collection and the appraisal report are separate assignments and may be performed by different people. If the appraiser does not perform the data collection, the lender must share the property data collection with the appraiser at the time of engagement. The appraiser will use the data along with other third-party sources to develop the appraisal. The effective date of the hybrid appraisal is the date the appraiser arrives at their opinion of value.

**Note:** If the appraiser is engaged as a property data collector and at a later date engaged as an appraiser, this is still considered a hybrid appraisal.

The lender remains responsible for verifying the accuracy of the property description and the completeness of the data including the condition and quality ratings as determined by the appraiser. The lender is also responsible for ensuring the property meets the property eligibility requirements in this *Selling Guide*. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

**Exhibits:** Hybrid appraisals require the same exhibits as traditional appraisals, including a floor plan conforming to the Square Footage-Method for Calculating: ANSI® Z765-2021. See SB4-1.2-01, Appraisal Reports and Exhibits for additional information on exhibits and SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report for additional information on the ANSI standard.

The appraiser must indicate in the Assignment section of the URAR their use of a property data collection in lieu of the appraiser performing an on-site inspection as part of the hybrid appraisal assignment.

**DU Messaging:** For loan casefiles that are eligible for a hybrid appraisal option, DU will issue a message informing the lender they can obtain a hybrid appraisal. DU will also issue messages for other eligible appraisal options. The lender may select from any of the options presented, which may include a hybrid appraisal, desktop appraisal, or traditional appraisal.

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### Eligible Transactions

The following are eligible for a hybrid appraisal:

- existing one-unit properties (including those with an ADU(s) and units in a condo or PUD);
- principal residence, second home, or investment properties;
- under construction properties;
- existing properties with incomplete construction or renovation project;
- community land trusts, or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature; and
- Texas 50(a)(6) loans.

The transaction must be a purchase, limited cash-out refinance, or cash-out refinance.

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### Ineligible Transactions

The following transactions are not eligible for a hybrid appraisal:

- two- to four-unit properties;
- co-op units;
- manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- HomeStyle Renovation and HomeStyle Refresh loans;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

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### Exercising Hybrid Appraisals

When exercising a hybrid appraisal, the lender must complete all of the following:

- obtain a property data collection and successfully submit to the Fannie Mae Property Data API.
- provide the property data collection to an appraiser for the completion of a hybrid appraisal.
- submit the hybrid appraisal to the Uniform Collateral Data Portal (UCDP).
- perform an appraisal review in accordance with this Guide.
- deliver the loan with the hybrid appraisal to Fannie Mae.

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### Representations and Warranties

When a hybrid appraisal report is submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a hybrid appraisal that receive a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal and value of the subject property (see *Selling Guide* A2-2-06, Representations and Warranties on Property Value, for complete requirements and additional information).

# SB4-1.2-04, Age of Appraisal and Restricted Appraisal Update Report Requirements (06/04/2025)

### Introduction

This topic contains information about the following:


- Age of Appraisal and Restricted Appraisal Update Report Requirements
- Multiple Appraisals of the Subject Property
- Use of an Appraisal for a Subsequent Transaction


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### Age of Appraisal and Restricted Appraisal Update Report Requirements

When an appraisal is obtained, the effective date of the appraisal must be no more than 12 months from the date of the note and mortgage. This policy applies regardless of whether the property was appraised as proposed or existing construction.

When the effective date of the original appraisal report is more than four months but less than 12 months from the date of the note and mortgage, the lender must obtain an appraisal update performed by the appraiser that includes inspecting the exterior of the property and reviewing current market data to determine whether the property has declined in value since the date of the original appraisal report. The inspection and result of the appraisal update must be reported on the Restricted Appraisal Update Report with an effective date within four months prior to the date of the note and mortgage.

- When the appraiser indicates within the report that the property value has declined, then the lender must obtain a new appraisal for the property.
- When the appraiser indicates within the report that the property value has *not* declined, then the lender may proceed with the loan in process without requiring a new appraisal.

The Restricted Appraisal Update Report must be completed by the original appraiser if possible, or if not possible by a substitute appraiser. The substitute appraiser must review the original appraisal report and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.

**Note:** A Restricted Appraisal Update Report is considered a new appraisal assignment and must be completed in compliance with *Appendix F-2: Restricted Appraisal Update Report Reference Guide* of the UAD Specifications.

When the effective date of the original appraisal report is more than 12 months from the date of the note and mortgage (with or without an appraisal update), a new appraisal report is required. Except for single-close construction-to-permanent financing loans, these policies apply to all appraisals including those that receive appraisal and value representation and warranty enforcement relief (see SB5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions).
See SB4-1.3-12, Appraisal Quality Matters, for information concerning changes to the appraised value. See *Selling Guide* B2-1.5-02, Loan Eligibility, for information regarding property valuation requirements for mortgage loans sold to Fannie Mae more than four months from the note date.

**Note**: For Desktop appraisals, when the effective date of the original desktop appraisal report is more than four months from the date of the note and mortgage, a new appraisal report is required.

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### Multiple Appraisals of the Subject Property

If the lender obtains more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must

- adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value,
- document the reasons for relying on the appraisal, and
- submit the appraisal selected by the lender through the UCDP prior to the sale of the loan.

These requirements also apply if the lender considers an appraisal to be deficient (see SB4-1.3-12, Appraisal Quality Matters).

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### Use of an Appraisal for a Subsequent Transaction

Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:

- The subsequent transaction may only be a limited cash-out refinance.
- The effective date of the appraisal report must be within 12 months from the note date of the subsequent transaction. If the appraisal report is greater than four months from the date of the note and mortgage, then a Restricted Appraisal Update Report is required. See preceding section, *Age of Appraisal and Restricted Appraisal Update Report Requirements*, above for details on completing an appraisal update.
- The lender must ensure the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction.

**Note**: The appraisal must comply with all other requirements in Subpart B4, Underwriting Property section of the *Selling Guide*.


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# SB4-1.2-05, Requirements for Verifying Completion and Postponed Improvements (12/10/2025)

### Introduction

This topic contains information on requirements for verifying completion of construction and repairs, and requirements for postponed improvements, including:


- Overview
- Completion Report and Completion Alternatives
- Criteria for Use of the Completion Report and Completion Alternatives
- Verification of Completion: New or Proposed Construction
- Verification of Completion: Existing Construction
- Postponed Improvements
- Requirements for HomeStyle Refresh Improvements on Existing Construction


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### Overview

Generally, improvements, alterations, and repairs on the subject property must be complete when the loan is sold to Fannie Mae. Lenders must obtain evidence of completion and Fannie Mae allows for a variety of methods depending on the type of valuation method and condition (subject to completion per plans or subject to repair) that must be confirmed.

Additionally, in some circumstances, Fannie Mae allows a loan to be sold prior to improvements or repairs being completed if the lender complies with the requirements related to postponed improvements.

### Completion Report and Completion Alternatives

The Completion Report confirms that the requirements or conditions in an appraisal report have been met (such as completion of construction or repairs).

The appraiser must utilize the Completion Report based on an on-site or virtual inspection of the property. If the appraiser does not perform an on-site inspection, they can use alternative methods to confirm the completion, such as digital photos, site videos, or other technological solutions. All completion documentation must include one or more visually verifiable exhibits. A link to the digital exhibits from within the report is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property.

**Note:** The Completion Report must be completed by the original appraiser, if possible; if not, a substitute appraiser may complete the report. The substitute appraiser must review the original appraisal report, and the lender must document in the loan file the reason why the original appraiser was not used.

#### Attestation Letters

Fannie Mae also permits other completion alternative methods - attestation letters - to verify completion of construction, alteration, or repairs in lieu of a Completion Report.

**Borrower/builder attestation letter:** For new or proposed construction, a letter is permitted to confirm the property was completed and constructed in conformity with the plans and specifications, amendments, and change orders. The borrower/builder attestation letter must include (at a minimum) the following items:

- borrower name,
- property address or legal description if the address is not available,


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- certification language that the property was constructed in conformity with the plans and specifications including any amendments or changes,
- signatures and dates by the borrower(s) and builder, and
- exterior and interior photos of the property (see SB4-1.2-01, Appraisal Reports and Exhibits).

If a letter signed by both parties is not obtainable, then a Completion Report completed by the appraiser is required.

**Borrower attestation letter:** A letter is permitted to confirm completion of certain alterations or repairs for existing construction. The letter must include (at a minimum) the following:

- borrower name;
- property address;
- certification language that the alteration or repair was satisfactorily completed;
- signatures and date of the borrower;
- visually verifiable exhibits of the completed work; and
- one of the following
    - signature of the qualified professional,
    - a professionally prepared report, or
    - paid invoices for the alterations or repairs.

When either of these attestation letter options is used, a link within the letter to any digital exhibits is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property. The letter and all documentation must be retained in the loan file.

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### Criteria for Use of the Completion Report and Completion Alternatives

Use the table below to determine the appropriate option for verifying completion of construction, alterations, or repairs.

| Appraisal | | |
|---|---|---|
| **Market Value Condition** | **Performer** | **Documentation Options** |
| **New or proposed construction - subject to completion per plans (and specifications)** | Appraiser | Completion Report with an on-site inspection |
| | Appraiser | Completion Report with virtual inspection |
| | Borrower and builder | Borrower/builder attestation letter with supporting evidence |

| | | |
|---|---|---|
| **Existing construction - subject to repairs (or alterations)** | Appraiser | Completion Report with an on-site inspection |
| | Appraiser | Completion Report with virtual inspection |
| | Borrower | Borrower attestation letter with supporting evidence |
| **Existing construction – subject to inspections** | Qualified professional | Professionally prepared inspection report<br><br>The lender must determine if repairs are required based on the result of the inspection and verify completion of those repairs per the requirements of this section. |
| **Value acceptance and property data** | | |
| **Condition** | **Performer** | **Documentation** |
| **Existing construction - repairs or alterations** | Borrower | Borrower attestation letter with supporting evidence |
| **Existing construction - inspections** | Qualified professional | Professionally prepared inspection report<br><br>The lender must determine if repairs are required based on the result of the inspection and verify completion of those repairs per the requirements of this section. |

**Note:** The Completion Report with virtual inspection and attestation letters are not permitted for verifying completion for HomeStyle Renovation transactions. For more information see SB4-1.4-11, Value Acceptance + Property Data.

### Verification of Completion: New or Proposed Construction

When the property securing the loan is new or proposed construction, the appraisal must be based on either plans and specifications, an existing model home, or other information sufficient to identify its quality and character to accurately report the interior features of the proposed improvements.

Verification of completion of construction is required (in accordance with the requirements above) before sale of the loan to Fannie Mae, unless the lender complies with the postponed improvements policies described below.

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### Verification of Completion: Existing Construction

Lenders must review the appraisal and/or the property data collection to ensure the property does not have a defect, damage, or deficiency affecting the soundness or structural integrity of the subject property. Any defect, damage, or deficiency must be itemized within the appropriate section of the URAR or property data collection. See SB4-1.3-06, Dwelling Condition and Quality of Construction, for information concerning property condition and quality of construction ratings.

The tables below provide requirements related to existing construction that have minor conditions or deferred maintenance items that may or may not affect the soundness or structural integrity of the property.

| ✓ | *Requirements for Existing Construction*<br>**When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Soundness or Structural Integrity of the Property** |
|---|---|
| | When the appraisal indicates the existence of minor conditions or deferred maintenance (defect, damage, or deficiency) that do not affect the soundness or structural integrity of the property, these items must be reflected in the appraiser's opinion of value and the appraisal report must be completed "as-is." Items meeting these criteria require the appraiser to report and comment on the effect these items may have on the subject property's value and marketability. The lender will then evaluate and determine if any additional course of action is required to comply with Fannie Mae's soundness and structural integrity requirements. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had these items repaired prior to sale of the loan to Fannie Mae when the appraisal is completed "as-is." |
| | If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at its own discretion and sell the loan to Fannie Mae prior to the release of the escrow if the lender can ensure these items do not affect the soundness or structural integrity of the property. |
| | Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in *Servicing Guide*, A4-1-02, Establishing Custodial Bank Accounts. |

| ✓ | *Requirements for Existing Construction*<br>**When There are Conditions that Affect the Soundness or Structural Integrity of the Property and Incomplete Items** |
|---|---|
| | When an appraisal is required and there are:<br><br>• defects, damages, or deficiencies affecting the soundness or structural integrity of the dwelling including, but not limited to, foundation settlement, water seepage, infestation, active roof leaks, worn roof shingles, inadequate electrical service, or plumbing fixtures, etc., or<br>• incomplete items including, but not limited to, remodeling or renovation(s) (e.g., unfinished kitchen, bathroom(s) or addition(s)),<br><br>the appraisal must be "subject to" completion of the specific repairs or incomplete items. See SB4-1.3-06, Dwelling Condition and Quality of Construction (06/04/2025) for information on completing appraisals "subject to" a satisfactory inspection.<br><br>Incomplete items or physical deficiencies affecting soundness or structural integrity may also be identified through the property data collection process. See SB4-1.4-11, Value Acceptance + Property Data for more information.<br><br>In all cases, the lender must verify completion before the loan is sold to Fannie Mae. See *Completion Report and Completion Alternatives* above for the specific requirements. |

### Postponed Improvements

Fannie Mae allows the sale of a loan before construction or improvements are complete if certain requirements are met.

The table below describes requirements related to properties that are new or proposed construction that are not complete when the loan is sold to Fannie Mae.

| ✓ | **Requirements for New or Proposed Construction** |
|---|---|
| | Loans may be sold before postponed items are complete; however, the postponed improvements must be completed within 180 days of the note date. Acceptable postponed items include items that:<br><br>• are part of the sales contract (third-party contracts are not permissible);<br>• are postponed for a valid reason, such as inclement weather or a shortage of building materials; and<br>• do not affect the ability to obtain an occupancy permit. |
| | Completion must be confirmed using a Completion Report or an acceptable completion alternative as described above. All documentation must be retained in the loan file. |
| | The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property. |

| ✓ | Requirements for New or Proposed Construction |
|---|---|
| | Lenders must establish a completion escrow for the postponed improvements by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price. |
| | Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in *Servicing Guide*, A4-1-02, Establishing Custodial Bank Accounts. |
| | Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed. |
| | The completion escrow may not adversely affect the mortgage insurance or title insurance. |
| | After a satisfactory Completion Report or completion alternative is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. |
| | Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien. |

### Requirements for HomeStyle Refresh Improvements on Existing Construction

The table below provides the postponed improvement requirements for a HomeStyle Refresh loan.

| ✓ | Requirements for HomeStyle Refresh Improvements on Existing Construction |
|---|---|
| | Loans may be sold before the improvements are complete; however, the postponed improvements must be completed within 180 days of the note date. Acceptable postponed items include items that will not prevent the issuance of an occupancy permit. |


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| ✓ | Requirements for HomeStyle Refresh Improvements on Existing Construction |
|---|---|
| | A Completion Report must be obtained to verify the work was completed and must:<br><br>• be completed by the appraiser,<br>• state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and<br>• be accompanied by photographs of the completed improvements. |
| | Lenders must establish a completion escrow for the total cost of the improvements. Lenders may include a contingency reserve of up to 20% of the total cost of improvements. |
| | Lender must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in *Servicing Guide*, A4-1-02, Establishing Custodial Bank Accounts. |
| | Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed. |
| | The completion escrow may not adversely affect the mortgage insurance or title insurance. |
| | Once a Completion Report is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the improvements. Any funds remaining in the escrow account after the work is completed must be applied to reduce the unpaid principal balance of the loan. The value of sweat equity and "Do It Yourself" improvements are not reimbursable. |
| | Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien. |

See SB5-3.3-01, HomeStyle Refresh for Improvements on Existing Properties, for other requirements related to HomeStyle Refresh loans.

# SB4-1.3-01, Review of the Uniform Residential Appraisal Report (06/04/2025)

## Introduction

This topic contains information on reviewing the appraisal report, including:


- Overview
- Appraisal Report Analysis


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## Overview

The Uniform Residential Appraisal Report (URAR) and the appraisal review requirements for one- to four-unit properties have been developed with the intent that the USPAP standards are followed, and that Fannie Mae's policies are supportive of fair lending practices. This topic provides lender requirements related to the transaction details and the property and appraisal eligibility analysis.

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## Appraisal Report Analysis

When an appraisal report is obtained, the lender must analyze the

- current contract for sale for purchase money transactions,
- current offering or listing for sale for both purchase and refinance transactions when the home was listed for sale,
- comparable sales for both purchase and refinance transactions, and
- current ownership for the subject property (see SB4-1.1-02, Lender Responsibilities, for further information).

The lender is responsible for validating that

- the property meets Fannie Mae's eligibility criteria (see SB2-3-01, General Property Eligibility, for eligibility requirements);
- the appraiser has provided a credible opinion of value that reflects the market value, condition, and marketability of the subject property in compliance with Fannie Mae's *Selling Guide* requirements (see SB4-1.3-12, Appraisal Quality Matters, for further information); and
- the appraisal conforms with SB4-1.1-04, Unacceptable Appraisal Practices.


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# SB4-1.3-02, Subject Listing Information, Sales Contract, Prior Sale, and Transfer History (06/04/2025)

### Introduction

This topic contains information on reviewing the following parts of the appraisal report:

- Subject Property
- Listing History
- Sales Contract
- Prior Sale and Transfer History – Subject
- Prior Sale and Transfer History – Comparable Sale

### Subject Property

The appraiser must identify the subject property by its complete property address and legal description. The appraiser must enter the physical property address, including the unit number for a condo, in a format that conforms to the United States Postal Service (USPS) address standards in Publication 28 – Postal Addressing Standards (pub28) for complete addresses. Postal address standards can be found at usps.com. The subject property address must be populated consistently throughout the appraisal report.

When the legal description is lengthy, the appraiser may type the full legal description or attach it as an image in the section. The appraiser must also identify the property rights to be appraised. (For eligibility requirements, see SB2-3-01, General Property Eligibility.)

Fannie Mae's appraisal report requires the appraiser to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal. If the subject property is currently under contract as part of a purchase, the appraiser must identify and provide the information for all data points within the sales contract section of the URAR.

See *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix F-1: URAR Reference Guide*.

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### Listing History

The appraiser needs to research and report at a minimum, the prior 12 months listing history of the subject property. The appraiser must report the following information:

- Listing status
- Listing type
- Listing ID
- Start date
- End date
- Days on market (DOM)
- Starting list price
- Current or final list price
- Total days on market (TDOM)


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If the subject property is currently or previously listed within the timeframe noted above, the appraiser must provide an analysis of the subject property listing history and include comments and exhibits. For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

### Sales Contract

The lender must provide the appraiser with a copy of the complete, ratified sales contract. The appraiser must indicate whether an analysis was or was not performed on the sales contract for the subject property purchase transaction. If an analysis was performed, the appraiser must provide the results of the analysis and include comments and exhibits. If an analysis was not performed, the appraiser must provide an explanation of why the analysis was not performed and include a description of the appraiser's source of information about the sales transaction, efforts made to obtain the sales contract, and why the sales contract was not provided.

The appraiser must indicate if there is any financial sales concessions to be paid by or on behalf of the seller as an inducement to purchase the subject property, including both monetary and non-monetary items, such as any closing costs, down payment assistance, payment of property taxes, HOA dues for a period of time, and gifts of personal property. If there is financial sales concessions, the appraiser must

- report the total dollar amount of the value of all sales concessions that will be paid by an interested party, including monetary contributions or items such as furniture, carpeting, etc. (if the appraiser is not able to determine a dollar amount for all or part of the financial sales concessions, the appraiser must select 'no');
- identify whether the sales concession is typical for the market; and
- provide a description of the items being paid.

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### Prior Sale and Transfer History - Subject

The appraiser must report on all prior sales or transfers (not the current sale) for the subject property for three years prior to the effective date of the appraisal, or longer if relevant.

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### Prior Sale and Transfer History – Comparable Sales

The appraiser must report in the Sales Comparison Approach section for each comparable property all prior sales or transfers that occurred within one year prior to the sale or listing reported in the Sales Comparison Approach:

- Settled sales: All sales or transfers 12 months prior to the comparable sale date as reported in the Sales Comparison Approach section; and
- All other non-settled comparables (Active, Pending, or Off Market): All sales or transfers 12 months prior to the effective date of the appraisal.

# SB4-1.3-03, Market Section of the Uniform Residential Appraisal Report (09/02/2026)

## Introduction

This topic contains information on reviewing the Market section of the appraisal report, including:


- Overview
- Market Area Boundaries, Description and Analysis
- Degree of Development
- Market Trends
- Over-Improvements
- Land Use


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## Overview

Market area characteristics and trends influence the value of one- to four-unit residences and an analysis of the subject property's market is a key element in the appraisal process. Market area is defined as the geographic region, for a subject property, from which most demand comes and in which most of the competition is located.

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## Market Area Boundaries, Description and Analysis

Fannie Mae requires the appraiser to perform an objective analysis of the market area by identifying its boundaries, characteristics, and factors affecting value and marketability.

- **Market Area Boundaries**. The appraiser should provide an outline of the market area boundaries, which should be clearly delineated using 'North,' 'South,' 'East,' and 'West.' These boundaries may include, but are not limited to, streets, legally recognized market area boundaries, waterways, or other natural boundaries that define the separation of one market area from another. A map of the market area boundaries showing Active Listings, Pending Sales, and the Sales in Lookback Period may be provided, which will display as part of Market Exhibits in the appraisal report.
- **Market Characteristics**. These can be addressed by the types of structures (detached, attached) and architectural styles (such as row or townhouse, colonial, ranch, or Victorian); current land use (such as single-family residential, commercial, or industrial); typical site size (such as 10,000 sf, or 2.00 ac); or street patterns or design (such as one-way street, cul-de-sac, or court).
- **Factors that affect value and marketability**. These can be addressed by such things as the proximity of the property to employment and amenities, appeal to the market, changes in land use, access to public transportation, and adverse environmental influences.

The appraiser must fully consider all of the market value-influencing characteristics and develop a description of the market area even if this requires more extensive research for particular property types or for properties in certain geographic locations.

An appraiser must perform a market analysis to identify the geographic area that is subject to the same influences as the property being appraised, based on the actions of typical buyers. The results enable the appraiser to identify factors influencing property value and define the market area from which to select the data needed to perform a sales comparison analysis.

In performing a market analysis, the appraiser must

- collect pertinent data,
- research the market area to identify physical characteristics and determine boundaries, and


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- identify land uses and any signs that the land uses are changing.

Fannie Mae expects the appraiser and the lender's underwriter to be aware of the varying conditions that characterize different market area types. Conditions typical in certain market areas may not be present in others. This does not mean the existence of certain types of conditions or characteristics are unacceptable; rather, it is an indication they must be viewed in context with the nature of the market area in which the subject property is located. For example, some market areas consist of a variety of property types with different uses. It is common to find properties that have mixed-uses, such as residential properties that also have child-care facilities, doctor or dental offices, and other types of business or commercial uses. The presence of mixed-use properties or a variety of property types within a market area should be viewed as a characteristic that the appraiser considers when performing the analysis and describing boundaries.

The appraiser must consider the influence of market forces, including economic, governmental, and environmental factors on property values in the market area. Economic forces that must be considered include such things as the existence of essential local support services. Examples of governmental forces that should be taken into consideration include the regulations, laws, and taxes that are imposed on properties. Environmental forces that must be considered include, among other things, the existence of a hazardous waste site on or near the property, the proximity of a property to an airport, or the Federal Emergency Management Agency (FEMA) designated flood zone in which the property is located. Characteristics that are not appraisal factors must not be considered in the valuation process either partially or completely. These characteristics include a person's sex, race, color, religion, disability, national origin, or familial status. Also, no reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property should be considered or reported.

The appraiser must determine, analyze, and consider factors in the valuation process based on their identification of all forces or factors that have the potential to influence the property value. The appraiser must report market conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors. If an appraiser can demonstrate by market evidence that a characteristic effects the value or marketability of the properties in the market area, they must consider it in the valuation process. The appraiser must not make unsupported assumptions or interject personal opinion or perceptions about market forces or other factors that may or may not affect the use and value of a property (see SB4-1.1-04, Unacceptable Appraisal Practices).

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### Degree of Development

When reviewing an appraisal on a property located in a rural or undeveloped area, the lender must evaluate the property's characteristics, zoning, highest and best use, and the present use to determine whether the property is primarily residential. For example, if the typical one-unit building site in a particular area (based on the zoning, highest and best use, and the present use) is two acres in size, the loan will be eligible for purchase or securitization regardless of the percentage of the total appraised value of the property that the site represents, as long as the appraiser demonstrates through the use of comparable sales that the property is a typical residential property for that particular market.

Because Fannie Mae does not purchase or securitize loans secured by agricultural-type properties, undeveloped land, or land-development-type properties, the lender must review the appraisal report for properties that have sites larger than those typical for residential properties in the market area. Special attention must be given to the appraiser's description of the market area, zoning, the highest and best use determination, and the degree of comparability between the subject property and the comparable sales. If the subject property has a significantly larger site than the comparables used in the appraiser's analysis, the subject property may not be a typical residential property for its market.

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### Market Trends

The appraiser must report the primary indicators of market conditions for properties in the subject property's market area as of the effective date of the appraisal by noting the information in the table below.

| Demand/Supply | Marketing Time |
|---|---|
| • oversupply<br>• in balance<br>• shortage | • under three months<br>• three to six months<br>• over six months |

The appraiser's analysis of a property must take into consideration all factors that affect value. Fannie Mae purchases loans in all markets, this is particularly important for market areas experiencing significant fluctuations in property values including sub-markets for specific types of housing. Therefore, lenders must confirm the appraiser analyzes active listings, pending sales, and settled sales based on their defined lookback period. The appraiser must also demonstrate or provide commentary on how the market trends were determined for competitive properties within the defined market area. If the price trend includes the use of multiple data sources, the appraisal report must include the sources used to determine the price trend and a reconciliation of these sources.

When completing the Housing Trends portion of the appraisal report, the trends must be reflective of those properties deemed to be competitive to the property being appraised. If the market area contains properties that are truly competitive (that is, market participants make no distinction between the properties), then all the properties within the market area would be reflected in the Housing Trends.

The appraiser's analysis of housing and price trends must include factual data from information sources such as, but not limited to, market data, home price indices, multiple listing services, public records, and/or models, and include market commentary. The trend indicated in the appraisal report must reflect the overall movement of the market based on a minimum of 12 months of data. Special attention should be given to sales or financing concessions and distressed market competition in market areas with declining property values, an oversupply of properties, or marketing times over six months and the appraiser must provide the reasons these market conditions exist when present.

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### Over-Improvements

An over-improvement is an improvement that is larger or costlier than what is typical for the market area. For example, a 4,000 square foot home located in an area of homes where the typical home is 2,000 square feet, may be considered an over-improvement. Furthermore, a home with an in-ground pool in an area where pools are not typical may also be considered an over-improvement. The appraiser must comment on over-improvements and indicate their contributory value in the Sales Comparison Approach adjustment grid.

Improvements can represent an over-improvement for the market area, but still be within the neighborhood price range, such as a property with an in-ground pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.

The fact that the property is an over-improvement does not necessarily make the property ineligible. However, lenders must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

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### Land Use

When different land uses and property types are present, the appraiser should take it into consideration when developing an analysis and defining the market area boundaries. This will help determine any positive or negative effects of mixed land uses. The appraiser should select comparable sales from within the same market area whenever possible to minimize any land use differences affecting value or marketability. If this is not possible, the appraiser may need to make a market supported location adjustment in the Sales Comparison Approach for sales that do not share the same characteristic(s) or externalities.


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# SB4-1.3-04, Property Site, Disaster Mitigation, and Highest and Best Use (09/02/2026)

### Introduction

This topic contains information on property site, disaster mitigation, and highest and best use, including the following:


- Overview
- Site Analysis
- Subject Property Zoning
- Adjoining Properties
- Site Utilities
- Property Access
- Community-Owned or Privately Maintained Streets
- Hazard Zone(s)
- Disaster Mitigation
- Present Use of the Property
- Highest and Best Use as Improved (or as Proposed)


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### Overview

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities (see *Property Requirements* in SB2-3-01, General Property Eligibility, for additional information). Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in the analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the market area or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

### Site Analysis

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. For example, the appraiser may not appraise only 5 acres of an unsubdivided 40–acre parcel. The appraised value must reflect the entire 40–acre parcel.

If the appraiser developed an opinion of site value, then the appraiser must also include the method by which the site value is calculated. For the sales comparison, the land comparables used to develop the site value must be provided. The Reconciliation of Site Value commentary must include any additional details necessary to support the appraiser's opinion of site value, such as date of sale, access, utilities, zoning, views, or site influences of the land comparables in relation to the subject property.

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### Subject Property Zoning

The appraiser must identify the specific zoning classification code in the appraisal report, such as R-1 or R-2, and provide a general description as to what the zoning permits, such as single family or two-unit properties. The appraisal must also indicate whether the subject property presents

- a legal conforming use,
- a legal non-conforming use,
- an illegal use, or
- no local zoning.


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If the subject's zoning compliance is illegal under the zoning regulations, the appraisal report must contain the reason(s) the site does not comply with the zoning regulations.

Fannie Mae only purchases or securitizes loans on properties if the improvements constitute a legal conforming use of the land. However, Fannie Mae will purchase or securitize a loan for a property that constitutes a legal, non-conforming use of the land provided that the appraisal analysis reflects any adverse effect that the non-conforming use has on the value and marketability of the property. This requirement applies to all property types.

Fannie Mae will not purchase or securitize a loan secured by a property that is subject to certain land-use regulations, such as coastal tideland or wetland laws, that create setback lines or other provisions that prevent the reconstruction or maintenance of the property improvements if they are damaged or destroyed. The intent of these types of land-use regulations is to remove existing land uses and to stop land development, including the maintenance or construction of seawalls, within specific setback lines.

For information regarding accessory dwelling units that comply or do not comply with zoning, see SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report.

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### Adjoining Properties

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

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### Site Utilities

For loans to be eligible for purchase or securitization, the utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal report must address the effect of the hazards on the value and marketability of the subject property (see SB4-1.4-08, Apparent Environmental Conditions).

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### Property Access

The appraisal report must identify the primary access (ingress and egress) to the subject property. The subject property should be accessed from a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents. If the subject's primary access is not typical of other properties in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.

The presence of sidewalks, curbs and gutters, streetlights, and alleys depends on local customs. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

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### Community-Owned or Privately Maintained Streets

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share;

- default remedies in the event a party to the agreement or covenant fails to comply with their obligations; and
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

**Note**: If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still sell the loan. However, the lender is required to indemnify Fannie Mae (as described in *Selling Guide* A2-1-03, Indemnification for Losses) against all losses incurred by Fannie Mae as a result of the physical condition of the street or in order to establish and/or retain access to the street.

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### Hazard Zone(s)

The appraiser must report all hazard zones that impact the subject property, including but not limited to, a Flood Hazard Zone that is identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps or a lava flow zone, based on a United States Geological Survey. For additional information concerning Fannie Mae's policies on flood insurance, see *Selling Guide* B7-3-06, Flood Insurance Requirements for All Property Types and for Hawaiian lava flow zones, see SB2-3-04, Special Property Eligibility Considerations.

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### Disaster Mitigation

The appraiser must identify and include in the appraisal report disaster mitigation features for the subject property and the comparable sale(s) designed to prevent or reduce impacts and risks caused by a natural disaster. Examples of preventative measures include fire-resistant exterior walls, a fortified roof, impact resistant glass, and flood vents.

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### Present Use of the Property

In the appraisal report, the appraiser must clearly state the present use of the subject property based on observation (if any) and information available in the normal course of business. Present use is defined as the most reasonable and probable utilization of the property as improved (or as proposed) as of the effective date based on its physical characteristics, design, and functional utility.

The present use reflects how the property is designed and intended to be used, which may differ from how it is currently occupied or utilized by the occupant(s). In addition, the statement describing the subject property's present use is independent from, and does not rely on, the highest and best use (HBU) conclusion.

If a property does not have a reasonable or probable residential use, the loan is not eligible for sale to Fannie Mae. Appraisers should recognize that the Uniform Residential Appraisal Report (URAR) is intended solely for residential property appraisals. Therefore, use of the URAR to report a HBU analysis inherently assumes that the appraiser has already concluded that the property's present use and its HBU as improved (or as proposed) is primarily residential. If the HBU as improved (or as proposed) is determined to be non-residential, the URAR is not an appropriate appraisal reporting form.

The appraiser's statement of present use must include:

- The total number of residential units, including any accessory dwelling unit(s) (ADU)
- Any non-residential use of the subject property (e.g., agricultural, industrial, commercial, etc.)

- Any modifications to the property that supports a non-residential use

**Note:** Non-residential uses must be identified and reported within the appraisal report in the applicable sections (Site, Unit Interior, or Project Information, as appropriate).

Fannie Mae will only purchase a loan with a non-residential use when the property is a one-unit residence, and any non-residential use is subordinate to the residential use. To qualify as a subordinate use, the non-residential use must be secondary to the property's residential use and the property's HBU as improved (or as proposed) must remain residential. See SB2-3-04, Special Property Eligibility Considerations and SB4-1.4-07, Appraisal Requirements for Mixed-Use Properties for additional appraisal and eligibility requirements related to non-residential uses.

### Highest and Best Use as Improved (or as Proposed)

For a loan to be eligible for sale to Fannie Mae, the property's highest and best use (HBU) as improved (or as proposed) must be residential. To qualify as a residential use, the property must be primarily built as a residential dwelling, and the market must recognize the residential use as the HBU of the property. Properties whose HBU is commercial, agricultural, industrial, or otherwise non-residential are not eligible under this requirement.

For a use to be the HBU of the property as improved (or as proposed), the improvements must make a positive contribution to the property's market value. However, the existing improvements do not have to be the ideal improvement to satisfy this criterion. Even when the improvement(s) exhibit physical, functional, or external obsolescence, the improvement can still represent the HBU as improved (or as proposed) if the improvement contributes value.

The appraiser must determine whether the present use of the subject property satisfies all four criteria of HBU:

- Legally permissible
- Physically possible
- Financially feasible
- Maximally productive

If the appraiser answers "Yes" to all four tests, then the present use is the HBU of the property as improved (or as proposed) and the response to the Uniform Residential Appraisal Report (URAR) question, "Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?" must be "Yes."

In all cases, if the present use does not satisfy one or more of the tests, the response to the question, "Is the highest and best use of the subject property as improved (or as proposed per plans and specifications) the present use?" must be "No." If the appraisal indicates the HBU of the property as improved (or as proposed) is not the present use, in certain circumstances, a loan may still be eligible. In either case, the appraisal report must include a summary of the analysis and provide support for the conclusion in the Highest and Best Use Commentary subsection.

When the present use does not satisfy one or more of these tests, the lender must determine whether the loan remains eligible for sale to Fannie Mae. To be eligible for delivery to Fannie Mae, the loan must be secured by a property that meets all Property Requirements. See SB2-3-01, General Property Eligibility.

The following table identifies these scenarios and applicable requirements. See the Highest and Best Use Playbook for illustrations.

| If the present use of the property as improved (or as proposed) is not | Then… |
|---|---|
| **Legally Permissible** | The present use of the property must be legal or legal non-conforming and must comply with the requirements outlined in *Subject Property Zoning* in SB4-1.3-04, Property Site, Disaster Mitigation, and Highest and Best Use.<br><br>A narrowly defined exception is provided in the *Zoning for an ADU* requirements within SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections, which permits one illegal ADU when the specified criteria are met.<br><br>When the present use is not legally permissible, the lender must verify the appraisal identifies the reason(s) the use does not comply with applicable law and include market support for the impact of the illegal use on the property's value and marketability. |
| **Physically Possible** | The present use must be physically possible given the characteristics (e.g., access, utilities, topography, lot size, setbacks, and building placement) of the land. In most cases, this criterion is satisfied because existing improvements are already in place or, for proposed construction, designed to be compatible with the land. |
| **Financially Feasible** | Fannie Mae does not impose eligibility restrictions solely because the improvements (or proposed improvements) supporting the present use are not financially feasible. The lender must verify that the appraisal appropriately identifies and supports any resulting obsolescence in the applicable approaches to value. |
| **Maximally Productive** | Fannie Mae does not impose eligibility restrictions solely because the present use of the property is not maximally productive. The lender must verify that the appraisal appropriately identifies and supports any resulting obsolescence in the applicable approaches to value.<br><br>**Note:** The appraisal must not be "subject-to" a modification, alteration, or redevelopment of the existing improvements for the purpose of achieving a more maximally productive use. The property must be valued based on its existing (or proposed) improvements. |


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# SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report (11/04/2026)

## Introduction

This topic contains information on reviewing the Dwelling Exterior, Unit Interior, and Outbuilding sections of the appraisal report, including:


- Overview
- Conformity of Improvements
- Unique Housing Types
- Actual and Effective Ages
- Remaining Economic Life
- Energy-Efficient and Green Features
- Layout and Floor Plans
- Above- and Below-Grade Area(s)
- Gross Building Finished Area for Two- to Four-Units
- Accessory Dwelling Units
- Zoning for an ADU
- Additions without Permits
- Properties with Outbuildings


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## Overview

The appraisal must provide a clear, detailed, and accurate description of the dwelling and outbuildings. The description must be as specific as possible and include needed repairs, additional features, amenities, and modernization. If the subject property has an accessory dwelling unit(s) (ADU), the appraisal must include it with a detailed description.

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## Conformity of Improvements

The improvements should conform to the market area in terms of age, type, design, and materials used for their construction. If there is market resistance to a property due to the improvements not being compatible with the requirements of the competitive market because of adequacy of plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand, the appraiser must address the impact to the value and marketability of the subject within the Functional Obsolescence section. However, the lender should be aware many established neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. For example, established neighborhoods are especially likely to have been developed through custom building. This variety may be a positive marketing factor.

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## Unique Housing Types

In the appraisal and appraisal report review processes, special consideration must be given to properties that represent unique housing for the subject market area. Loans secured by unique or nontraditional types of housing, including, but not limited to, earth houses, geodesic domes, and log houses, are eligible for sale to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the special or unique property and the more traditional types of houses in the market area and the number of such properties that have already been sold in the market area.


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A 3D printed home with a traditional design and constructed using conventional building materials is not considered a unique or nontraditional housing type. However, the appraiser must select the appropriate construction method for 3D printed homes. Lenders should follow the standard eligibility and comparable sales selection requirements for site-built housing. See SB4-1.3-08, Comparable Sales and SB4-1.3-09, Adjustments to Comparable Sales, for additional information.

The table below provides the requirements when appraising unique properties.

| If… | Then… |
|---|---|
| the appraiser cannot locate recent comparable sales of the same design that appeal to the same market participants, but can determine market supported adjustments for the differences between the comparables and the subject property, and demonstrate the marketability of the property based on older comparable sales, comparable sales in competing market areas, the existence of similar properties in the market area, and any other reliable market data, | the property is acceptable as security in a sale of the loan to Fannie Mae. |
| the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so significantly different that they cannot establish a reliable opinion of market value, | the property is not acceptable as security in a sale of the loan to Fannie Mae. |

Fannie Mae does not specify minimum square footage or finished area requirements for properties with the exception of manufactured housing (see SB4-1.4-01, Factory-Built Housing: Manufactured Housing). There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

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### Actual and Effective Ages

Fannie Mae does not place a restriction on the actual age of the dwelling. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject market area.

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-maintained or may have a particular physical problem. In such cases, the lender should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser makes market supported adjustments for the "Year Built," they must explain the adjustments that were made.

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### Remaining Economic Life

The Uniform Residential Appraisal Report (URAR) is designed to meet the needs of different user groups; consequently, the report may contain data that is not required by Fannie Mae, including the remaining economic life for the property being appraised. If the appraisal report includes this information, lenders are not required to consider the remaining economic life as part of their review.

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### Energy-Efficient and Green Features

An energy-efficient property is one that uses resource-effective design, materials, building systems, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process and noted on the appraisal report within the Energy-Efficient and Green Features sections. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions, differences in utility costs, and overall market reaction to the cost of the feature. Some examples of energy-efficient and green features may include, but are not limited to, energy-efficient ratings or certifications, programmable thermostats, solar photovoltaic systems, solar panels, low-e windows, insulated ducts, and tank-less water heaters.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the Sales Comparison Approach adjustment grid. Appraisers may augment the Sales Comparison Approach in evaluating any impact (either positive or negative) to the value of energy efficiency items with either the income or cost approach; however, appraisers cannot adjust the value of the property

- on a mechanical dollar-for-dollar basis based on equipment and installation cost, or the discounted present value of expected cost savings of the equipment over the useful life of the equipment; or
- solely based on the cost or income approach. The appraiser must also analyze the market reaction to the energy-efficient feature.

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property. See SB2-3-04, Special Property Eligibility Considerations, for additional eligibility requirements for properties with solar panels.

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### Layout and Floor Plans

Dwellings with unusual layouts and floor plans generally have limited market appeal. A review of the room list and floor plan for the dwelling unit may indicate an unusual layout, such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room. This needs to be noted in the Functional Obsolescence section of the appraisal report. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, they must make market supported adjustments to reflect this in the overall analysis. However, if acceptance by the market can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

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### Above- and Below-Grade Area(s)

Appraisers must follow the American National Standard Institute ® (ANSI ®)'s *Square Footage-Method for Calculating: ANSI Z765-2021* ("ANSI standard") when measuring, calculating, and reporting the above- and below-grade square footages. This includes finished and unfinished area(s) of the subject for attached and detached single-family dwellings, including manufactured homes. This is applicable to all hybrid appraisals and appraisals requiring interior and exterior inspections. If state law or a regulatory requirement mandates adherence to a different measurement standard, the appraisal report must note the standard required and explain how it was applied.

**Note:** The ANSI standard cannot be used to measure apartment/multifamily buildings; however, it must be used in all other cases for single-family dwellings including townhomes, rowhouses, and detached dwellings. When measuring an apartment unit in a condo or co-op project building, the appraiser must use interior perimeter measurements.

The appraiser must be consistent when reporting the finished above-grade square footage, below-grade square footage, and room count. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count, and square footage(s) must not change.

The square footage of any nonstandard finished area(s) (NSFA) such as finished area(s) with direct interior access from within the dwelling not conforming to the ANSI ceiling height requirements or accessed through unfinished area(s) (e.g., an unfinished hallway, a room, or staircase, etc.) must be calculated and reported separately in accordance with the ANSI standard. Additionally, the appraiser must provide the reason(s) this area does not comply with the ANSI standard and also acknowledge any contribution of the additional square footage.

Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out partially below-grade area with finished rooms would not be included in the above-grade square footage. Appraisers should include both above- and below-grade rooms in the total bedroom and bathroom counts. However, when providing the level and room detail, the appraiser must identify the level, whether the room is above- or below-grade, and if the area is finished (includes NSFA) or unfinished.

The appraiser must separately report any noncontinuous finished area in the Dwelling Exterior section of the appraisal report. Noncontinuous finished area is an above-grade finished area that is not designated as an ADU but is attached to the dwelling with no direct interior access. If there are multiple noncontinuous finished areas in a dwelling, then report the combined square footage and room summary in the noncontinuous finished area table in the Dwelling Exterior section of the appraisal report.

All other areas of the dwelling that do not conform to the ANSI definition of finished area are reported as above- or below-grade unfinished area(s).

Detached structures that have finished area(s) must be reported separately in the Outbuilding section. These areas must not be included in the dwelling's reported finished, nonstandard, or noncontinuous finished area(s). If multiple ADUs are present, repeat the documentation process for each unit within the appraisal report to ensure all are properly described and analyzed.

When using sketching or 3D scanning software, the resulting output must conform to the ANSI standard. See *Exhibits for Appraisals* in SB4-1.2-01, Appraisal Reports and Exhibits for additional information on footprint sketches and floor plans.

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### Gross Building Finished Area for Two- to Four-Units

The gross building finished area

- is the most common comparison for two- to four-unit properties;
- is the total finished area for all dwelling(s) regardless of grade level and whether the finished area is standard or nonstandard, including common finished area(s), ADUs, and below-grade finished area(s) not associated with a specific unit based on exterior measurements;
- must be consistently developed for the subject property and all comparables used in the appraisal;
- must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and
- cannot count unfinished area(s) or exterior common areas, such as open stairways.

Fannie Mae will accept the use of other comparisons for two- to four-unit properties, such as the total above-grade and below-grade areas discussed in *Above- and Below-Grade Area(s)*, provided the appraiser

- explains the reasons they did not use a gross building finished area comparison, and
- clearly describes the comparisons that were made.

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### Accessory Dwelling Units

An ADU is generally an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. The ADU must have basic requirements for living, sleeping, cooking, and bathroom facilities on the same parcel as the primary dwelling. See SB2-3-04, Special Property Eligibility Considerations, for complete ADU eligibility requirements.

When reporting the living area of an ADU, it should not be included with the finished above-grade square footage calculation of the primary dwelling. If an outbuilding does not meet the ADU minimum requirements, it should be treated as any other ancillary outbuilding and included separately in the sales comparison approach then adjusted based on its contributory value to the subject property.

The characteristics of the property determine whether it is classified as a one-unit with an ADU or as a two-unit. Indicators that a property may be a two-unit property include separate utility meters, distinct postal addresses, and the legal ability to rent the units independently. As part of the highest and best use (HBU) analysis, the appraiser must determine and support the property's compliance with the applicable classification.

When a property includes one or more ADUs, the appraisal report must describe the ADU(s) and analyze their impact on the subject property's value and marketability. The report must also demonstrate that the market recognizes and accepts the ADU designation and does not treat the property as a two- to four-unit property. A one-unit property with multiple ADUs remains eligible for classification as a one-unit property, provided all ADU requirements in the Selling Guide are satisfied.
An older, closed sale may be used as a comparable sale when it provides relevant market evidence. In addition, an active listing or a property under contract may be included as supporting market data to demonstrate the marketability of the subject property.

### Zoning for an ADU

Some ADUs may predate the adoption of the local zoning ordinance and therefore be classified as legal nonconforming. An ADU should always be considered legal if it is allowed under the current zoning code.

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The illegal use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its present use.
- The appraisal report states that the improvements represent a use that does not comply with zoning (“illegal” use).
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use. Aged, settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.

**Note:** This exception does not apply to properties that contain multiple illegal ADUs.

See SB4-1.3-04, Property Site, Disaster Mitigation, and Highest and Best Use, for subject property zoning information.

### Condo Projects with Units that Include ADUs

A condo unit containing one accessory dwelling unit (ADU) is eligible provided it meets the following criteria, in addition to all applicable requirements for single-family residences:

The ADU

- is expressly permitted by the condo project’s governing documents (e.g., covenants, conditions, and restrictions);
- is located on the same parcel as the primary condo unit;
- cannot be separately sold, financed, transferred, or owned apart from the primary condo unit;
- must secure the same mortgage loan and be subject to the same security instrument as the primary condo unit.

The presence of an ADU must not create commercial, mixed-use, or characteristics that would render the condo project ineligible.

See Selling Guide B4-2.1-03, Ineligible Projects.

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### Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

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### Properties with Outbuildings

A lender must give special consideration to properties with outbuildings to ensure the property is residential in nature. Descriptions of all outbuildings must be reported in the applicable sections of the appraisal report and considered in the Sales Comparison Approach. Any nonresidential use must be reported in the applicable section of the report.

| Type of Outbuilding | Acceptability |
|---|---|
| Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property. | The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject's market area for which an active, viable residential market exists. |
| An atypical minimal outbuilding. | The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it. |
| Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals. | The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings. |

# SB4-1.3-06, Dwelling Condition and Quality of Construction (06/04/2025)

### Introduction

This topic contains information on dwelling condition and quality of construction, including:


- Appraiser Selection of Condition, Quality, and other Characteristic Ratings
- Property Condition
- Dwelling Condition Ratings
- Identifying Dwelling Condition
- Definitions of Not Updated, Partially Updated, Moderately Updated, Significantly Updated, and Fully Updated Kitchen and Bathroom(s)
- Defect, Damage, or Deficiency
- Infestation, Dampness, or Settlement
- Appraisals Completed "As Is"
- Quality of Construction Rating
- Identifying Quality of Construction


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### Appraiser Selection of Condition, Quality, and other Characteristic Ratings

The appraiser must rate the interior, exterior, and overall condition and quality of construction of the dwelling(s). When selecting the overall condition and quality ratings, an appraiser must:

- consider all dwellings to determine an overall condition and quality rating. The appraiser should select the rating that best reflects the dwelling(s) as a whole and in its entirety.
- describe the subject dwelling as of the effective date of the appraisal on an absolute basis, meaning the dwelling must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the dwelling relates or compares to other properties. Additionally, the condition and quality ratings for comparable properties must be made on an absolute basis (again, each comparative dwelling on its own merits), not on a relative basis, and reflect the dwelling as of the date of sale of that comparable property.

**Note**: These requirements also apply to all other ratings or descriptions, including the View and Location.

When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that dwelling remains a C4 when using that specific sale as a comparable in future reports. The same expectation holds true for ratings and descriptions of comparable sales. When a comparable is used in a subsequent appraisal, the ratings and descriptions of that dwelling should not change from one appraisal to the next when it reflects the same sale transaction.

**Note**: Properties can have the same rating or description and still require an adjustment. It should be noted this not only applies to condition and quality ratings but can apply to other ratings or descriptions as well. For example, all water views may not be equal. In this instance, an adjustment should be made and explained in the Commentary section of the report.

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### Property Condition

Lenders must take the necessary steps to confirm that a property meets Fannie Mae's condition requirements as outlined in this topic.

The table below provides the requirements for property condition.

| ✓ | Requirements |
|---|---|
| | The appraisal report must include the appraiser's opinion about the condition of the improvements based on factual data. |
| | Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property. Areas of the property that are not accessible must be disclosed in the report.<br><br>**Note**: Appraisers are not responsible for hidden or unapparent conditions. |
| | Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as needed repairs, deterioration, or the presence of hazardous waste, toxic substances, or adverse environmental conditions. |
| | Detrimental conditions of the improvements must be reported in the appraisal even if the conditions are typical for competing properties. |
| | The appraiser must rate the interior, exterior, and overall condition of the dwelling(s). (See *Dwelling Condition Ratings* and *Identifying Dwelling Condition* in this topic for details.) |
| | The appraiser must identify and explain any apparent defect, damage, or deficiency, including<br>• items that require immediate repair; and<br>• items where maintenance may have been deferred, which may or may not require immediate repair. |
| | The appraiser must identify and explain any functional or external inadequacies. |


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## Dwelling Condition Ratings

The appraiser must assign one of the following standardized condition ratings in the table below when identifying the condition of the dwelling(s) for the subject property and comparable sales.

| Condition Rating Definitions | | |
|---|---|---|
| Rating | Condition Rating Definition | Criteria |
| C1 | The dwelling is 100% newly constructed, completed within the past 12 months, has never been occupied, and exhibits no signs of wear or use. | A dwelling in C1 condition:<br>• Has a foundation that must be 100% original to the new construction.<br>• May include non-structural components composed of “like new” recycled materials (e.g., reconditioned or refinished barn wood).<br>• Is a 100% newly constructed dwelling that does not exhibit physical depreciation. |
| C2 | The dwelling exhibits like-new condition. It has been recently constructed or entirely remodeled within 36 months prior to the appraisal date, while retaining portions of the pre-existing structure. The dwelling may have been occupied but features no deferred maintenance and require no repair. | A dwelling in C2 condition:<br>• Has been recently constructed (within the past 36 months), and otherwise exhibits virtually no wear and tear, but is no longer new due to occupancy or use (e.g., model home), or<br>• Has been fully remodeled "to the studs" including new major components; a new dwelling built utilizing the footprint or façade of a pre-existing dwelling; or a newly converted condo/co-op in a pre-existing building. |
| C3 | The dwelling has been well-maintained and exhibits only minimal wear and tear. The dwelling may exhibit only minor age-related physical depreciation; or, most components, but not every major building component, have been updated or renovated. | A dwelling in C3 condition will likely have:<br>• Components or rooms that are older but have been very well maintained or experienced minimal use, and show little or no physical depreciation, or<br>• Major components or rooms that have been recently updated, but which do not constitute a full-home renovation/remodel.<br>Examples of major components include but are not limited to a combination of (one or more):<br>• Newer roof<br>• Some newer mechanicals<br>• New / newer floor coverings<br>• Remodeled kitchen or bathroom(s) |
| C4 | The dwelling has been adequately maintained and exhibits moderate wear and tear resulting from occupancy and exposure to elements. The dwelling may feature some updating but otherwise contains deferred maintenance items that are generally minor or cosmetic in nature. | A dwelling in C4 condition may have experienced some periodic updating but most components are near the middle of their life cycle. Common deferred maintenance resulting from typical use is apparent but presents no immediate impact.<br>Examples include, but are not limited to:<br>• Minor damage to walls or trim (interior or exterior)<br>• Worn floor finishes or carpet that shows age<br>• Kitchen or bathrooms that are dated but fully functional |
| C5 | The dwelling exhibits significant wear and tear resulting from inadequate maintenance, but the soundness and | A dwelling in C5 condition has items that will need to be repaired, rehabilitated, or replaced in the near future for the dwelling to remain useable and functional. |

| | | |
|---|---|---|
| | structural integrity are sufficient to support occupancy. Some components may be missing or near the end of their useful life, but major components are still functional. | Examples include, but are not limited to:<br>• Roofing that is significantly worn, cupped, or curled but with no apparent active leaks<br>• Severely worn, damaged, or missing floor coverings<br>• Functional kitchen or bathroom that may be in disrepair (e.g., damaged or missing cabinets or countertops). |
| C6 | The dwelling features an extreme lack of maintenance, resulting in severe damages, deficiencies, or defects that impact the soundness or structural integrity, and the dwelling is not suitable for occupancy. There are major components that may be missing, no longer functional, or otherwise require immediate correction. | A dwelling in C6 condition is not useable or functional in its current state, and will require immediate repairs, rehabilitation, or replacement of key components.<br>Examples include, but are not limited to:<br>• Active roof leaks<br>• Damaged or missing exterior components that allow weather intrusion into the dwelling with resultant structural impact or damage<br>• Damaged or failing foundation<br>• No functional kitchen or bathrooms |

### Identifying Dwelling Condition

As previously noted, the condition rating(s) selected must reflect the condition(s) of the dwelling(s). It would be inappropriate to select either a lower or higher overall rating on the basis of one or two minor inferior or superior areas of the dwelling. However, the C6 rating is an exception because it indicates that the dwelling is impacted by one or more deficiencies that negatively affect the soundness or structural integrity of the dwelling. As a result, if any portion of the dwelling is rated a C6, the whole dwelling must be rated a C6.

Loans secured by properties with a condition rating of C6 are not eligible for sale to Fannie Mae. Any defect, damage, or deficiency impacting the soundness or structural integrity of the dwelling must be repaired with a resulting minimum condition rating of C5 prior to sale of the loan. See *Defect, Damage, or Deficiency* in this topic for information related to completing appraisals on properties with soundness or structural integrity deficiencies.

### Definitions of Not Updated, Partially Updated, Moderately Updated, Significantly Updated, and Fully Updated Kitchen and Bathroom(s)

As a subset of identifying the condition of the subject dwelling(s), the appraiser must also identify the level of updating, if any, that the kitchen and bathroom(s) has received by utilizing the definitions in the room update status and overall update status for bathrooms tables contained in the Unit Interior section of *Appendix F-1: URAR Reference Guide*.

### Defect, Damage, or Deficiency

The appraiser must report any significant items and associate any defect, damage, or deficiency with the most appropriate section of the Uniform Residential Appraisal Report (URAR). These items have at least one of the following characteristics

- Rise to the level of recommending repair, replacement, or inspection by an individual with expertise in the specific field,
- Negatively affect the integrity / composition of the site itself,
- Negatively affect the soundness or structural integrity of the improvements,
- Measurably impact the marketability or value of the property, or
- Require completion.

The appraisal report must identify and describe physical deficiencies that could affect a property's soundness or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised "subject to" completion of the specific repairs or alterations. In instances related to the dwelling(s), the dwelling condition and quality ratings must reflect the condition and quality of the dwelling based on the hypothetical condition that the repairs or alterations have been completed. All items affecting soundness and structural integrity must be identified in the Defects, Damages, Deficiencies table(s) of the appropriate section.

If the appraiser is not qualified to evaluate the alterations or repairs, the appraisal must note the deficiencies and be completed "subject to" a satisfactory inspection by a qualified professional. The lender must decide if the inspection(s) is required and whether the property meets eligibility requirements. If the property does not meet eligibility requirements, the lender must provide satisfactory evidence that the condition has been corrected or repaired prior to loan delivery. In this case, the appraiser is not required to review the professionally prepared report, re-inspect the property, or provide a Completion Report. The lender must document the decision and rationale in the loan file. See SB4-1.4-08, Apparent Environmental Conditions, for properties affected by environmental hazards.

If a defect, damage, or deficiency is reported with a recommended action of completion, inspection, or repair

- the report must be made subject to the completion of the item and cannot be "as is"; and
- the condition status, if applicable, for the item must reflect the future "resolved" condition.

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### Infestation, Dampness, or Settlement

If the appraisal indicates evidence of infestation (such as wood-boring insects), dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements. The appraisal should be made "subject to" repairs, or "subject to" an inspection by a qualified professional.

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### Appraisals Completed "As Is"

Fannie Mae permits appraisals to be based on the "as is" condition of the property provided existing conditions are minor and do not affect the soundness or structural integrity of the property, and the appraiser's opinion of value reflects the existence of these conditions.

Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property. While such conditions generally do not rise to the level of a required repair, they must be reported in the appropriate Defects, Damages, Deficiencies table, with a recommended action of "none". Examples of minor conditions and deferred maintenance include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass.

Dwellings with condition ratings C1, C2, C3, C4, and C5 as previously defined are eligible in "as is" condition. Dwellings with the initial condition rating C6 indicate one or more deficiencies that impact the soundness or structural integrity of the dwelling. Therefore, the appraisal must be completed "subject to" completion of the deficient item(s) with a minimum resulting condition rating of C5. Any appraisal made subject to repair will require an "as-is" condition rating.

See *Defects, Damages, and Deficiencies* in this topic for additional details when completing appraisals on properties with soundness or structural integrity deficiencies.

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## Quality of Construction Rating

The appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

| Quality Rating Definitions | | | |
|---|---|---|---|
| In each category, the dwelling must meet the majority of the criteria listed but does not have to meet all criteria. | | | |
| Rating | Overall Quality Rating | Interior Quality Rating | Exterior Quality Rating |
| Q1 | The dwelling is an individually designed, one-of-a-kind structure built to exacting standards. Q1 features exceptional quality materials and luxury amenities, and exhibits the highest quality of workmanship and complexity in architectural design. The dwelling features a high degree of refinement and ornamentation that requires specialized construction or installation. A Q1 dwelling is recognized as being very rare or even non-existent in some communities. | • Spacious rooms with high ceilings featuring extensive use of treatments (e.g., coved, barrel, cupola, coffered, beamed) and exceptional grade trim and custom millwork throughout.<br>• Exceptional grade, often rare or imported flooring materials, frequently featuring inlay work or other customization.<br>• Spacious kitchens featuring top-grade materials, extensive cabinetry, and countertop surface area; appliances and fixtures are frequently state of the art, custom-designed, built-in, or commercial grade.<br>• Luxury bathrooms, often oversized and featuring exceptional quality materials and multiple ornate or state-of-the-art fixtures and features. | Custom fenestration and doorways using exceptional grade materials and engineering; featuring keystones or detailed mouldings throughout.<br>• Roof designs using premium materials designed for longevity and resistance to weather; often featuring large ornamental overhangs, multiple hips and valleys, or steep pitches.<br>• Exterior walls constructed using exceptional grade materials, often featuring multiple corners, unique angles and shapes, and extensive use of trim or decorative adornments. |
| Q2 | The dwelling is a high-quality structure, often using customized or complex, commercially available plans. The materials and amenities have extended life expectancy, high energy efficiency, and greater detail, ornamentation, or custom finishes. A Q2 dwelling can contain a mixture of upgraded, high-end and luxury materials, constructed with high-quality workmanship | • Spacious rooms with higher ceilings that may have custom design elements (e.g., coved, barrel, cupola, coffered, beamed), high-end built-ins, mouldings and wall treatments in communal areas and the main bedroom.<br>• High-grade floor coverings designed for the highest level of durability and occasionally featuring inlays or other customization.<br>• Large kitchens featuring high-end appliances, extensive cabinetry, and countertops.<br>• Large bathrooms specifically dedicated to certain bedrooms as well as at least one common bathroom; containing high-end countertops, cabinetry, and plumbing fixtures. | • Multiple windows and doorways constructed with high-end materials, featuring custom design particularly at the front and rear entry and often featuring keystones or other decorative adornments.<br>• Roof designs using high-end roof materials; typically featuring ornamental overhangs, steep pitches, and multiple ridges, hips and valleys, and gables.<br>• Exterior walls constructed using high-end materials and featuring multiple corners with angled walls, unique shapes, and custom trim at focal points. |
| Q3 | The dwelling represents housing that can be reproduced from standard plans, featuring a higher than standard degree of | • Some rooms may have vaulted ceilings, and custom design elements such as built- | • Multiple windows and doorways constructed with upgraded materials and featuring decorative design |

| | | | |
|---|---|---|---|
| | complexity and some customization in the structural design, amenities, and finishes. A Q3 dwelling can contain a mixture of premium and standard level materials or amenities. They are often characterized as "semi-custom" new construction, or as pre-existing dwellings that are upgraded using some premium materials or amenities. | ins, upgraded trim, finishes, mouldings and wall treatments.<br>• Upgraded or high-grade floor coverings that exceed the quality and durability of standard-grade.<br>• Moderately sized kitchens featuring upgraded appliances, cabinetry and countertops or a mix of upgraded and high-grade elements.<br>• Multiple bathrooms of moderate size with some bathrooms specifically dedicated to certain bedrooms as well as at least one common bathroom; containing upgraded cabinetry and plumbing fixtures or a mixture of upgraded and high-end elements. | elements adorning at least the front of the home.<br>• Roof designs using upgraded roof materials; may have steep pitches, could have more than one ridge with hips and valleys, gables, and overhangs.<br>• Exterior walls constructed using upgraded materials and featuring multiple corners with some angled walls or unique shapes. |
| Q4 | The dwelling is constructed using standard building plans and designs that can be reproduced multiple times with minimal customization or style variations. The materials and amenities are widely available and can contain a mixture of some standard and economy-level materials. | • Sufficiently sized rooms typically with flat ceilings and some vaulted ceilings in larger rooms, some trim or finishes of basic design.<br>• Standard floor coverings that exceed the quality and durability of economy grade.<br>• Moderately sized kitchens featuring standard-grade appliances, cabinetry and countertops or a mix of economy and upgraded elements.<br>• Usually featuring multiple bathrooms of moderate size containing standard-grade cabinetry and plumbing fixtures or a mixture of economy and upgraded elements. | • Windows and doorways constructed of standard-grade material.<br>• Simple roof designs using standard-grade roof materials with moderate pitch and could have more than one ridge; may feature some simple decorative elements such as gables or overhangs.<br>• Exterior walls constructed using standard-grade materials and featuring multiple corners; but basically rectangular in shape or footprint. |
| Q5 | The dwelling is basic in design and meets minimum building standards. Dwellings rated Q5 are designed for efficiency in installation and construction representing basic housing. Q5 dwellings have minimal refinements or upgrades but are not considered substandard. | • Small rooms typically with flat ceilings, minimal trim or finishes of basic design.<br>• Economy floor coverings that meet minimum standards.<br>• Small kitchens featuring economy-grade appliances, cabinetry, and countertops or a mix of standard and economy grade.<br>• Bathrooms that are limited in size and number, and feature economy-grade cabinetry and plumbing fixtures or a mixture of economy and standard-grade elements. | • Limited windows and doorways, constructed of economy grade materials, simple in shape and design, and featuring basic trim and finish.<br>• Basic roof design, usually low-pitch and single roofline; features economy or standard-grade roof materials.<br>• Exterior walls constructed using economy or standard-grade materials and featuring minimal corners; usually a basic rectangular shape. |

| | | | |
|---|---|---|---|
| Q6 | The dwelling is a structure constructed in a manner reflecting a lack of basic architectural designs and may not meet local building standards. The materials and amenities are low quality, alternate, or non-customary; or whose construction or installation reflects unskilled workmanship and may not be adequately equipped to support year-round occupancy. Q6 dwellings may be rare or even non-existent in many communities. | • Small rooms often with low ceilings, limited closet or storage space, and little or no trim or finishes.<br>• Low grade or non-existent floor coverings.<br>• Small kitchens featuring only the minimum requirements for function; with limited cabinetry and countertop space; and low-grade or non-existent appliances.<br>• Bathrooms that are limited in size and number and feature only the minimum requirements for function; limited or no cabinetry; and low-grade plumbing fixtures. | • Limited windows and doorways, constructed of lower-grade materials and featuring minimal or no trim and finish.<br>• Basic roof design, usually low-pitch and single roofline; may possess inconsistent rooflines if additions are present; features low-grade or alternate roof materials.<br>• Exterior walls constructed using economy or low-grade materials and featuring minimal corners; usually a basic rectangular shape. |

### Identifying Quality of Construction

The same approach used in identifying the condition of the dwelling(s) is also applicable to identifying the quality of construction. The selected rating must reflect a holistic view of the quality of construction. However, the Q6 rating is an exception because it indicates that the dwelling is impacted by one or more deficiencies that negatively affect the soundness or structural integrity of the dwelling. As a result, if any portion of the dwelling is rated a Q6, the whole dwelling must be rated a Q6.

Loans secured by dwellings with a quality of construction rating of Q6 are eligible for sale to Fannie Mae provided any items in relation to the quality of construction that impact the soundness or structural integrity of the property are repaired prior to the delivery of the loan. See *Defects, Damage, or Deficiency* in this topic for requirements when completing appraisals on dwellings with soundness or structural integrity deficiencies.

# SB4-1.3-07, Sales Comparison Approach Section of the Uniform Residential Appraisal Report (06/04/2025)

## Introduction

This topic contains information on reviewing the Sales Comparison Approach section of the Uniform Residential Appraisal Report, including:


- Overview
- Data and Verification Sources of Comparable Sales
- Prior Sale and Transfer History of the Subject and Comparable Sales


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## Overview

The sales comparison approach to value is an analysis of comparable sales, contract sales, and listings of properties that are the most comparable to the subject property.

The appraiser's analysis of a property must take into consideration all factors that have an effect on value. The appraiser must analyze all closed sales, contract sales, and offerings or listings of properties that are the most comparable to the subject property in order to identify any significant differences or elements of comparison that could affect their opinion of value for the subject property as of the effective date of the appraisal report. This is particularly important in changing (increasing or declining values) markets. Analyzing closed sales, contract sales, and offerings or listings is an important analysis in any market and will result in more accurate reporting on market conditions, including trends that indicate that sale prices for contract sales and asking prices for recent offerings or listings have changed. (See SB4-1.3-03, Market Section of the Uniform Residential Appraisal Report, for information regarding market competition and housing trends.)

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## Data and Verification Sources of Comparable Sales

Data and verification source(s) for each comparable sale must be reported in the Sales Comparison section of the Uniform Residential Appraisal Report (URAR) under data sources. Examples of data sources include, but are not limited to, a multiple listing service, deed records, assessor records, real estate agents, builders or developers, appraisers, appraisers' files, and other third-party sources and vendors. The appraiser must state the specific data source (such as tax records or deed records), and refrain from using broad categories, such as "public records." Data source(s) must be reliable sources for the area where the subject property is located.

Regardless of the source(s) used, there must be sufficient data to understand and verify the conditions of sale, existence of financing concessions, physical characteristics of the subject property, and whether it was a typically motivated transaction.

It is acceptable to obtain comparable sales data from parties that have a financial interest in either the sale or financing of the subject property; however, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction. For example, if the real estate agent of the subject property has provided comparable sales data, that information must be verified through another disinterested source.

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## Prior Sale and Transfer History of the Subject and Comparable Sales

Fannie Mae requires the appraiser to report and analyze the prior three-year subject property sale and transfer history and the prior twelve-month sale and transfer history for each of the comparables.


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# SB4-1.3-08, Comparable Sales (09/02/2026)

### Introduction

This topic contains information on selection of comparable sales, including:


- Selection of Comparable Sales
- Minimum Number of Comparable Sales
- Age of the Comparable Sales
- Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS
- Rural Properties
- Use of Foreclosures and Short Sales


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### Selection of Comparable Sales

The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have same highest and best use and possess similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, finished area, style, and condition. Site influences, environmental conditions, and hazard zones such as Federal Emergency Management Agency (FEMA) designated flood zone or the United States Geological Survey (USGS) lava flow zone should be given consideration when selecting comparables.

When choosing comparable sales, the appraiser should examine the market area of the subject property, assess its characteristics, and identify similar comparable sales. Market area is defined as the geographic region, for a subject property, from which most demand comes and in which most of the competition is located. This does not mean comparable sales must be identical to the subject property, but instead should be competitive and appeal to the same market participants that would also consider purchasing the subject property. If the available sales are not similar, the appraiser needs to decide whether it is appropriate to expand their search to outside the market area. If this occurs, the appraiser must provide commentary to explain the rationale for selecting comparable sales outside the subject's market area and make location adjustments if warranted.

Comparable sales from within the same market area (including subdivision or project) as the subject property should be used when possible, and must be used in certain instances (see below). Sale activity within the immediate market area is the best indicator of value, as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

Fannie Mae does allow for the use of comparable sales located in competing market areas, as these may simply be the best comparables available and the most appropriate for the appraiser’s analysis. If this situation arises, the appraiser must not expand the market area boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing market area and address any differences that exist. The appraiser must also provide an explanation as to why they used the specific comparable sales in the appraisal report and include a discussion of how the competing market area is comparable to the subject's market area.

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the market area, the appraiser might need to use properties that are not truly comparable to the subject property. In some situations, properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser’s analysis. The use of such sales is acceptable if the appraiser adequately documents the analysis and explains why they were used. (For additional information, see SB4-1.3-03, Market Section of the Uniform Residential Appraisal Report.)


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When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms of miles and include the applicable directional indicator (for example, "1.75 miles NW"). The distance between the subject property and each comparable property is to be measured using a straight line between the properties.

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### Minimum Number of Comparable Sales

A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate. See *Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs* below for exceptions to this policy.

In no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three closed comparables, these transactions, which are often completed as part of a construction-to-permanent loan transaction, may be included as additional support with appropriate commentary.

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### Age of the Comparable Sales

Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have affected the availability of recent sales, and the changing market conditions causing their use must be explained in the report.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate three truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales if they explain why they are being used.

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### Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS

If the subject property is located in a new (or recently converted) condo project, subdivision, or PUD, it must be compared to other properties in the same market area and to properties within the subject condo project, subdivision, or PUD. This comparison should help demonstrate market acceptance of new developments and the properties within them. Generally, a subdivision is considered new when there are limited or no resales or the builder or developer is involved in the marketing or sale of the properties. See SB4-2.1-01, General Information on Project Standards and *Selling Guide* B4-2.3-01, Eligibility Requirements for Units in PUD Projects for the definition of a new condo project or PUD.

At a minimum, the appraisal report for these properties must include the following:

- At least one settled comparable sale from the subject condo project, subdivision, or PUD. (A resale is preferable if it is verifiable and does not involve the subject builder or developer).
- At least one settled comparable sale from outside the subject condo project, subdivision, or PUD.
- A third settled comparable sale can be from inside or outside of the subject condo project, subdivision, or PUD. Settled comparable sales or resales from within the subject condo project, subdivision, or PUD are preferable to settled sales from outside the condo project, subdivision, or PUD provided the builder or developer of the subject property is not involved in those transactions.
- In the event there are no settled comparable sales inside a new condo project, subdivision, or PUD because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project,

subdivision, or PUD in lieu of one settled sale. The appraiser must also use at least three settled comparable sales from projects, subdivisions, or PUDs outside of the subject project, subdivision, or PUD.

If the subject property is part of a newly built or recently converted condo project, subdivision, or PUD that has 2-20 units and there are no settled or pending sales, the appraiser may use comparable sales from a competing project, subdivision, or PUD. The requirements in the following table apply.

| ✓ | The appraisal report must… |
|---|---|
| | Use competing projects, subdivisions, or PUDs of a similar size and type. |
| | Explain why the comparable sales were chosen and demonstrate market acceptance. |
| | Describe how the condo project, subdivision, or PUD chosen compares to the subject property. |

**Note:** If the subject property is not the first unit under contract in the condo project, subdivision, or PUD, the appraiser must include one under contract sale from the subject's project, subdivision, or PUD as support.

To meet the requirement that the appraiser utilize one comparable sale from inside the subject project, subdivision, or PUD, the appraiser may need to rely solely on the builder of the property they are appraising, as this data may not yet be available through typical data sources (for example, public records or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the settlement statement from the builder's file.

When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale. (For special appraisal considerations regarding condo projects, see *Selling Guide* B4-1.4-03, Condo Appraisal Requirements.)

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### Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property. If the appraiser's analysis of the market data shows the best indicators of value for the subject property are a considerable distance away, those comparable sales can be used if it produces credible assignment results. The appraisal must include an explanation of why the particular comparables were selected.

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### Use of Foreclosures and Short Sales

It is acceptable to use foreclosures and short sales as comparables if the market data indicates they are the best and most appropriate sales available. The appraiser must address in the appraisal report the prevalence of such sales in the subject's market and their impact including the conditions of sale. The appraiser cannot assume the conditions of the sale are equal to or represent a market value for the comparable property. For example, a short sale property that sells below market value will need a conditions of sale adjustment. The appraiser must identify the financing type as REO sale or short sale, as appropriate. (For specific information regarding comparable sale adjustments, see SB4-1.3-09, Adjustments to Comparable Sales, and for information regarding financing types, see *Appendix F-1: URAR Reference Guide*.)

# SB4-1.3-09, Adjustments to Comparable Sales (06/04/2025)

## Introduction

This topic contains details on selected adjustments to the comparable sales, including:

- Analysis of Adjustments
- Sales or Financing Concessions
- Market Conditions Analysis and Time Adjustments
- Appraiser's Comments and Indicated Value in the Sales Comparison Approach

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## Analysis of Adjustments

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however, this is rarely the case as typically no two properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market-based adjustments) to the difference in the properties. For example, it would be inappropriate for an appraiser to provide a $20 per square foot adjustment for the difference in the finished above grade area based on a rule-of-thumb when market analysis indicates the adjustment should be $100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market-based adjustments without regard to arbitrary limits on the size of the adjustment.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the market area, the underwriter must determine if the opinion of value is adequately supported. (For further information regarding comparable selection, see SB4-1.3-08, Comparable Sales.)

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make market supported adjustments to reflect the actions of typical purchasers in that market.

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## Sales or Financing Concessions

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the comparables based on the market at the time of sale. For information related to sales or financing concessions for the subject transaction, see *Selling Guide* B3-4.1-02, Interested Party Contributions (IPCs).

Examples of sales or financing concessions include:

- interest rate buydowns or other below-market rate financing;
- loan discount points;
- loan origination fees;
- closing costs customarily paid by the buyer;
- payment of condo, co-op, or PUD fees or assessment charges;
- refunds of (or credit for) the borrower's expenses;
- absorption of monthly payments;
- assignment of rent payments; and
- inclusion of non-realty items in the transaction.

The dollar amount of sales or financing concessions paid by the seller must be reported for each comparable sale if the information is reasonably available (see UAD Specification *Appendix F-1: URAR Reference Guide*). Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data source. If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available.

The amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than the value of the real estate. Adjustments based on dollar-for-dollar deductions that are equal to the cost of the concessions to the seller, as a strict cash equivalency approach would dictate, are not appropriate unless supported by the market data.

Fannie Mae recognizes that the effect of sales or financing concessions on sales prices can vary with the amount of the concessions and differences in various markets. Adjustments must reflect the difference between what the comparables actually sold for with the sales or financing concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions. If the appraiser's analysis determines that the market's reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.

Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property. Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.

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### Market Conditions Analysis and Time Adjustments

How to measure and analyze (market conditions) are critical elements in determining an accurate market value because the appraisal is based on a specific date in time (the effective date of appraisal report). The comparable sales being considered must be analyzed by the appraiser to determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal report. This analysis will determine whether a time adjustment based on the contract date is warranted. A specific time adjustment to a comparable sale(s) may differ from the identified market trend since the determination of whether an adjustment is made to a comparable sale is based on market changes between the contract date of the comparable sale and the effective date of the appraisal report. For example, the 12-month value trend may indicate a positive overall trend, however it's possible the market was stable (or declining) between the time period of the contract date of the comparable and the effective date of the appraisal. See this illustration for Market Condition Adjustments. Comparable(s) sales with a contract date that is recent in relation to the effective date of the appraisal report will likely not have a time adjustment given the inability to identify a change in the market. The appraisal report must contain the market analysis that supports the indicated market trends, and any adjustments made for changes in market conditions.

Because the appraisal is for a specific point in time, (the *effective date* of the appraisal report), the appraiser must analyze comparable sales for any changes in market conditions from their contract dates through the effective date of the appraisal report to determine whether time adjustments are warranted. Time adjustments, or the lack thereof, must be supported by evidence. Use of home price indices (HPIs) to support time adjustments is consistent with our policy. The adjustment rates can also be determined through statistical analysis, modeling, paired sales, or other commonly accepted methods. The appraisal report must, at a minimum, summarize the supporting evidence and include a description of the data sources, tool(s), and technique(s) used.

Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the appraisal report.

The appraiser should provide the date of the sales contract and the settlement or closing date for each comparable sale. If the contract date is unavailable to the appraiser in the normal course of business, the appraiser must enter unknown in place of the contract date.

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### Appraiser's Comments and Indicated Value in the Sales Comparison Approach

The appraiser must provide fact-based and objective comment(s) that detail the work performed and data sources utilized for the market supported adjustments. A statement only recognizing that an adjustment has been made is not acceptable. When appropriate, the appraiser's analysis should also include fact-based comments about a current contract, offering, or listing for the subject or comparable sales, current ownership, and recent prior sales or transfers. Additionally, the appraiser's comments must reconcile the adjusted (or indicated) values for the comparable sales and identify why the sale(s) were given the most weight, less weight, or no weight in developing the indicated value for the subject property. It should be noted that the indicated value in the Sales Comparison Approach must be within the range of the adjusted sales price of the comparables identified in the appraisal report.


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# SB4-1.3-10, Cost and Income Approaches to Value (09/02/2026)

## Introduction

This topic contains information on reviewing the cost approach and the income approach, including:


- Cost Approach to Value
- Income Approach to Value


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## Cost Approach to Value

Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary for credible assignment results, then the cost approach must be developed and the results reported in the URAR. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. This approach, then, measures value as a cost of production. It may be appropriate to use the cost approach when appraising new or proposed construction, property that is undergoing renovation, unique property, or property that features functional or external depreciation, to support the sales comparison approach analysis. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

The appraiser must disclose the method(s) and source(s) used to form an opinion of site value. In instances where land comparables are used, the appraiser must also provide details on the land sales including access, utilities, zoning, views, or site influences of the land comparables in relation to the subject's site. Any value attributed to developing the raw land into a buildable site should be accounted for in the appraiser's opinion of site value. Similar to the sales used in the sales comparison approach, time adjustments may be needed to establish a current market value for the land sale as of the effective date of the appraisal report.

If the appraiser has completed the cost approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report. For example, when the subject is new construction, any recent sale of the land must be disclosed and reconciled with the opinion of site value. Another example is if the community water source is unsafe and has had a negative impact on housing prices throughout the area, lenders should expect to see an amount indicated for external depreciation in the cost approach. Additionally, if the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, lenders should expect to see an amount indicated for functional depreciation.

**Note**: Physical, functional, and external depreciation in the cost approach only applies to the property's improvements, not the site. If the property has an adverse impact due to a site influence, such as arterial street location, appraisers must account for this in the opinion of site value.

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## Income Approach to Value

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required in the valuation of two to four-unit properties and may be appropriate in market areas that consist of single family properties when there is a substantial rental market. The income approach to value may not be appropriate in areas that consist mostly of owner-occupied properties because adequate rental data does not exist for those areas. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. If the appraiser believes the income approach is necessary for credible

assignment results, then the income approach must be included. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. A minimum of three rental comparables must be provided for each of the subject units. Each rental comparable represents a unit and not necessarily the entire comparable property. If applicable, a rental comparable unit can be compared to more than one subject property unit. If the appraiser has completed the income approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with comments mentioned elsewhere in the appraisal report.

The lender must validate these approaches to value in the appraisal report and comply with SB4-1.1-04, Unacceptable Appraisal Practices.


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# SB4-1.3-11, Valuation Analysis and Reconciliation (06/04/2025)

## Introduction

This topic contains information on reviewing the valuation analysis and final reconciliation, including:


- Overview
- Reconciliation


## Overview

The Reconciliation section of the Uniform Residential Appraisal Report (URAR) enables an appraiser to develop and report, in a concise format, an adequately supported opinion of market value based on the sales comparison, cost, and income approaches to value, as applicable. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, they should provide additional supporting data in the Reconciliation of Market Value commentary section of the URAR.

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## Reconciliation

In the Reconciliation section of the appraisal report, the appraiser considers the reliability and applicability of each of the approaches to value that was developed in the appraisal report. If one or more approaches to value is not developed, then the reason for exclusion must be provided. After consideration of each of the approaches to value, the appraiser will provide their final value opinion. In the Reconciliation section, appraisers must

- reconcile the reasonableness and reliability of each applicable approach to value,
- reconcile the reasonableness and validity of the indicated values,
- reconcile the reasonableness of available data,
- indicate which comparable sales were given the most weight, and
- select and report the approach or approaches to value that were given the most weight.

The reconciliation is based on the appraiser's analysis developed as part of the valuation process and must not rely on simple averaging with the following exception. If a weighted average technique is applied, it must include an explanation describing why it was used. The final reconciled indicated value must be within the range of the values indicated by the approaches of value used in the appraisal report.


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# SB4-1.3-12, Appraisal Quality Matters (09/03/2025)

## Introduction

This topic contains information on appraisal quality matters, including:


- Addressing Appraisal Deficiencies
- Lender Requirements
- Reconsideration of Value
- Fannie Mae's Referrals to State Appraiser Boards
- Refusal to Accept Appraisals from Specific Appraisers


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## Addressing Appraisal Deficiencies

The lender is responsible for confirming that an appraisal report is complete, and any changes made are by the appraiser that completed it. If the lender has concerns with the appraisal resulting in questions about the reliability of the opinion of market value, the lender must attempt to resolve its concerns with the original appraiser. The lender must return the appraisal report to the original appraiser, identify the deficiency found, and provide justification for requesting the deficiency corrections the lender believes make the appraisal report unreliable. Any lender request for the appraiser must be based on material and substantive evidence and must not be solely based on the opinion of market value not supporting the proposed loan amount. The revised appraisal report must contain the date, the section, and details of the changes made in the Revision History of the URAR. The lender must document in the loan file the resolution of the noted deficiencies in the original appraisal report.

When the lender is unable to resolve its concerns with the original appraiser and the appraisal is considered deficient, the lender has the following options.

- obtain a new appraisal report of the subject property from an alternate appraiser, or
- obtain a desk or field review of the original appraisal report.

If the lender obtains a new appraisal report, the lender must comply with the requirements for multiple appraisals of the subject property in SB4-1.2-04, Age of Appraisal and Restricted Appraisal Update Report Requirements and select the most reliable appraisal report prior to making a final underwriting decision on the loan.

If the lender obtains a desk or field review of the original appraisal report, the review must be completed in accordance with the USPAP and conform to Appraiser Independence Requirements (AIR). The scope of work for either type of review allows changing the opinion of market value for something other than a mathematical error, and the appraiser completing the appraisal review must

- be licensed or certified in the state in which the property is located,
- have access to the appropriate data sources, and
- possess the knowledge and experience to appraise the subject property with respect to both the specific property type and geographical location.

The lender may forego either type of review and obtain a new appraisal. When a new appraisal is obtained, the lender must document the deficiencies that are the basis for ordering the new appraisal and adhere to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value. The lender must either document in the loan file the resolution of the noted deficiencies in the original appraisal report or detail the reasons for relying on a second opinion of market value.

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### Lender Requirements

A lender must continually evaluate the quality of the appraiser's work through the normal review process of all appraisal reports, as well as through the spot-check field review or desk review of appraisals as part of its quality assurance system.

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### Reconsideration of Value

For loans requiring an appraisal report, the lender must have policies and procedures in place for a borrower-initiated reconsideration of value (ROV). At a minimum, the ROV process must meet Fannie Mae requirements and adhere to all applicable local, state, and federal laws.

The ROV process must include a review and resolution procedure for the ROV request, and steps for the borrower(s) to appeal an appraisal when it is believed the opinion of value

- is unsupported,
- may be deficient due to unacceptable appraisal practices, or
- reflects prohibited discriminatory practices.

Regardless of the outcome of the ROV, the lender is responsible for ensuring the appraisal report and opinion of market value are reliable and adequately supported.

The lender must provide a disclosure to the borrower outlining the ROV process when the appraisal report is provided to the borrower. The disclosure must make it clear that only one borrower-initiated ROV is permitted per appraisal. The following table describes the information required to initiate the ROV process.

| ✓ | The borrower-initiated ROV must include… |
|---|---|
| | • Borrower(s) name,<br>• Property address,<br>• Effective date of the appraisal,<br>• Appraiser name, and<br>• Date of the ROV request. |
| | Identification and description of unsupported, inaccurate, or deficient areas in the appraisal report. |
| | Additional data, information, or comparable properties (not to exceed five), and the related data sources (for example, the MLS listing number). |
| | An explanation of why the new data supports the ROV. |

In addition to the borrower ROV submission requirements, the lender's ROV policies and procedures must include instructions on required information for a borrower-submitted ROV and standardized communication to the appraiser. The following table describes additional lender requirements.

| ✓ | The lender must… |
|---|---|
| | complete its appraisal review before initiating the ROV process. |
| | designate an underwriter or other appraisal subject matter expert to review the ROV request. |
| | validate the request from the borrower contains sufficient details prior to sending to the appraiser. |
| | obtain the necessary information from the borrower if the ROV request is unclear or needs more information. |
| | align its ROV policies and procedures with Appraiser Independence Requirements (AIR). |
| | standardize communication to the appraiser, that contains the following:<br>• borrower(s) name, property address, effective date of the appraisal, appraiser name, and date of the ROV;<br>• identification and description of unsupported, inaccurate, or deficient areas in the appraisal report;<br>• additional data, information, or comparable properties, not to exceed the maximum of five;<br>• a definition of turn-time expectations for communicating ROV results;<br>• include instructions for delivering the ROV response as part of a revised appraisal report that includes commentary on conclusions in the Revision History regardless of the outcome; and |

| ✓ | The lender must… |
|---|---|
| | • a reference for appraisers on how to correct minor appraisal issues or non-material errors not related to the ROV process. |
| | ensure documentation related to the outcome of the ROV is retained in the loan file. |

If material deficiencies identified in the appraisal report are not corrected or addressed by the appraiser upon request, or if there is evidence of any unacceptable appraisal practices detailed in SB4-1.1-04, Unacceptable Appraisal Practices, the lender must forward the appraisal report and summary of findings to the appropriate appraisal licensing agency or regulatory board. The lender must also report suspected overt violations of anti-discrimination laws to the proper local, state, or federal agency. In the event of these occurrences, the lender may obtain a second or subsequent appraisal report.

**Note**: After a loan has closed, an ROV request is no longer allowed to be submitted by the borrower.

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### Fannie Mae's Referrals to State Appraiser Boards

Fannie Mae conducts different levels of due diligence for quality control purposes and may refer unacceptable appraisal reports to state appraiser licensing or regulatory boards for investigation.

Fannie Mae's objectives in referring appraisal reports to state appraiser licensing or regulatory boards are

- to emphasize continuing efforts to maintain the quality of appraisals,
- to protect Fannie Mae's interest,
- to improve the quality of mortgages delivered to Fannie Mae by identifying appraisers that have performed appraisals of a sufficiently poor quality as to impair the security interests,
- to help the industry enhance the quality of appraisals by identifying and referring appraisals that are not adequately supported or credible, and
- to help enforce professional standards.

**Note**: Fannie Mae's decision to make such referrals does not affect the lender's responsibility for managing the property valuation and appraisal review process.

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### Refusal to Accept Appraisals from Specific Appraisers

Fannie Mae may refuse to accept appraisals prepared by specific appraisers, or Fannie Mae may notify a lender that appraisals prepared by a given appraiser are no longer accepted. When a lender is notified that appraisals from specific appraisers are no longer accepted, the lender is prohibited from delivering mortgages to Fannie Mae secured by properties appraised by that individual immediately following its receipt of Fannie Mae's notice.

# SB4-1.4-01, Factory-Built Housing: Manufactured Housing (02/04/2026)

### Introduction

This topic contains information on manufactured housing appraisal requirements, including:


- Overview
- Manufactured Housing Appraiser Qualifications
- Manufactured Housing Appraisal Requirements and Standards
- Newly Constructed Manufactured Housing Appraisal Requirements
- Manufactured Housing Appraisal Site Requirements
- Manufactured Housing Appraisal Comparable Selection Requirements Excluding MH Advantage
- MH Advantage Appraisal Comparable Selection Requirements
- Manufactured Housing Appraisal Cost Approach Requirements
- Sources of Manufactured Housing Data


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### Overview

Fannie Mae requires market-based property valuations for manufactured homes demonstrated by a well-developed sales comparison approach to value that is further supported by the cost approach to value.

For manufactured housing property eligibility requirements, including special appraisal requirements for MH Advantage properties, see SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing. For manufactured housing loan eligibility and underwriting requirements, see *Selling Guide* Chapter B5-2, Manufactured Housing.

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### Manufactured Housing Appraiser Qualifications

The valuation principles for appraising manufactured homes are essentially the same as for other types of residential property; however, not all appraisers have the knowledge and experience necessary to understand the unique construction process for manufactured homes, nor the manufacturers', federal, state, and local requirements for both construction and installation. The lender must ensure the appraiser is knowledgeable about the local manufactured home market and its unique construction process.

The lender must also ensure the appraiser has access to appropriate data sources to render an opinion of value for the manufactured home. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements as well as the Appraiser Independence Requirements.

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### Manufactured Housing Appraisal Requirements and Standards

The list below provides requirements and standards for manufactured housing appraisals.

- For purchase money mortgages, the lender must provide the appraiser with

    - a complete copy of the executed contract for sale of the manufactured home and land; or
    - a complete copy of the executed contract for both, if the manufactured home and land are purchased separately; and
    - a copy of the manufacturer's invoice if the manufactured home is new.

    The appraiser must analyze the contract(s) and the manufacturer's invoice for new manufactured homes, and provide a


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summary in the appraisal report.

- The appraiser must identify the construction method as manufactured home and include the foundation type. Identifying the property as a manufactured home will help to ensure the appraiser accurately reports its characteristics including, but not limited to, the:

    - manufacturer's name,
    - trade or model number,
    - year of manufacture,
    - serial number,
    - Certification number(s) from the HUD Data Plate or HUD Certification Label(s),
    - type of foundation and utility connections,
    - detailed and supported cost approach,
    - opinion of the market value of the site, and
    - property's conformity to the market.

**Note**: For existing construction, the appraiser must also provide a photo(s) of the HUD Data Plate or the HUD Certification Label(s) for each section of the home. (Photos of both are required for new construction.)

- The appraiser must indicate a value conclusion based solely on the real property as completed consisting of the

    - manufactured home,
    - site improvements, and
    - land on which the home is situated.

The value conclusion cannot include any non-realty items including, but not limited to, insurance, warranties, or personal property (e.g., furniture.).

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### Newly Constructed Manufactured Housing Appraisal Requirements

For new manufactured homes not yet attached to the land or not yet constructed, the appraisal may be based on either plans and specifications or an existing model home. If required information is not available at the time the appraiser is completing the appraisal report, the appraiser must appraise the property subject to the receipt and review of the items and completion of the improvements as a condition of the appraisal.

A Completion Report must be obtained before the loan is sold to Fannie Mae. The Completion Report must:

- be completed by the original appraiser if possible, or if not possible, by a substitute appraiser. verify and state that the improvements were completed, and all other requirements and conditions of the appraisal have been satisfied;
- include previously unavailable information, and a summary of the appraiser's analysis of any previously unavailable dealer invoice; and
- include photos of the completed improvements attached to the permanent foundation, and of the HUD Data Plate and HUD Certification Label(s).

**Note:** When a substitute appraiser is used for the Completion Report, the substitute appraiser must review the original appraisal report. The lender must note in the file the reason why the original appraiser was not used.

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### Manufactured Housing Appraisal Site Requirements

The appraisal site requirements for manufactured housing are as follows:

- The appraiser must base their opinion of value on the characteristics of the subject property, including the site area. The appraisal report must indicate whether or not the site is compatible with the neighborhood, and must comment on the conformity of the manufactured home to other manufactured homes in the market area.
- The property site must be of a size, shape, and topography that is conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in their analysis and valuation. The appraiser must comment if the site has adverse conditions or is not typical for the market.

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### Manufactured Housing Appraisal Comparable Selection Requirements Excluding MH Advantage

The comparable selection requirements for manufactured housing appraisals, excluding MH Advantage, are as follows:

- The appraisal must include at least two closed comparable sales of manufactured homes.
- If the subject property is a single-section, multi-story or two- to four-unit manufactured home, the appraisal must include at least one closed comparable sale of the same configuration, when available.
- If a closed comparable sale with a matching configuration is not available, the appraisal may include an active listing or pending sale as a supplemental exhibit to demonstrate marketability.
- For multi-story manufactured homes, the appraisal may include either a multi-story site-built home or a different type of multi-story factory-built home as the third comparable sale.
- For two- to four-unit manufactured homes, the appraisal must include either a two- to four-unit site-built home or a different type of two- to four-unit factory built home as the third comparable sale.

When a non-manufactured home is used as a comparable sale:

- The appraisal must include a clear rationale for its inclusion.
- The appraisal must include supported and well-documented adjustments to account for differences in construction method, design, and market appeal.
- In markets where condo projects with manufactured homes are more common, at least two comparables should be manufactured homes located in a condominium project. In markets where condo projects with manufactured homes are atypical, the appraiser may select comparables from a mixture of manufactured homes and manufactured home condos provided the appraiser is able to provide adequate written explanation and make appropriate adjustments.
- An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing market to establish a baseline for the “sales comparison analysis” and determine sound adjustments to reflect the differences between comparable sales that are available and the subject property.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

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### MH Advantage Appraisal Comparable Selection Requirements

MH Advantage properties are built to meet construction, architectural design, and energy efficiency standards that are more consistent with site-built homes. Accordingly, for MH Advantage properties, appraisers must use other MH Advantage properties (homes that have an MH Advantage Sticker or the CHOICEHome® label) for the comparable sales. However, if fewer than three MH Advantage sales or its equivalent (CHOICEHome®) are available, then the appraiser must supplement those comparable sales with the best and most appropriate sales available. Such sales must include a minimum of two site-built homes in recognition of the design standards for MH Advantage. There is no requirement to include a factory-built home sale(s) that is not MH Advantage, but if used, the appraiser must note why it was selected as a comparable sale, based on an assessment of the physical features of the subject property.

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### Manufactured Housing Appraisal Cost Approach Requirements

Fannie Mae requires a detailed and supported cost approach to value all manufactured homes which may include:

- site value
- home delivery, installation, and setup;
- replacement or reproduction; and
- depreciation

The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion. A properly developed and detailed cost approach will provide the information necessary for an appraiser to

- recognize differences in manufactured home construction quality based on the UAD quality rating definitions,
- understand the difference between the comparable sales and the subject property,
- extract from the market appropriate adjustments for the sales comparison analysis, and
- identify sales of manufactured homes that are similar to the subject property to use as comparable sales.

**Note:** Personal property must not be included in the cost approach to value.

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### Sources of Manufactured Housing Data

Sources such as MLS and public records are important and may contain some manufactured housing data; however, appraisers must utilize other data sources, such as manufactured home dealers and construction companies/builders experienced in the delivery, installation, and setup of manufactured homes.

# SB4-1.4-05, Leasehold Interests Appraisal Requirements (06/04/2025)

## Introduction

This topic contains information on special appraisal considerations for properties subject to leasehold interests, including:


- Overview
- Appraisal Requirements for Leasehold Interests
- Comparable Selection Requirements for Leasehold Interests


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## Overview

A mortgage that is secured by a leasehold estate or is subject to the payment of "ground rent" gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met. When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. For more information on appraising this type of leasehold, see SB4-1.4-06, Community Land Trust Appraisal Requirements.

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## Appraisal Requirements for Leasehold Interests

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must comment and provide a clear, detailed and thorough explanation of the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information within the appropriate section of the Uniform Residential Appraisal Report (URAR).
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

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## Comparable Selection Requirements for Leasehold Interests

When there are a sufficient number of closed comparable sales with similar leasehold interests available, the appraiser must use the comparable sales in the analysis of the market value of the leasehold estate for the subject property.

However, if there are not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate and must make appropriate adjustments in the Sales Comparison Approach section of the URAR to reflect the market reaction to the different lease terms or property rights appraised. See SB4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.


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# SB4-1.4-06, Community Land Trust Appraisal Requirements (06/04/2025)

### Introduction

This topic contains information on special appraisal considerations for properties subject to a community land trust, including:


- Appraiser Qualifications for Appraising Properties Located in a Community Land Trust
- Requirements for Community Land Trust Appraisals
- Comparable Selection Requirements for Determining Fee Simple Value
- Determining the Capitalization Rate
- Determining the Leasehold Value
- Leasehold Value Requested Condition Commentary


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### Appraiser Qualifications for Appraising Properties Located in a Community Land Trust

The lender must ensure that the appraiser is knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates, that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements including the *Appraiser Independence Requirements*.

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### Requirements for Community Land Trust Appraisals

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property. Fannie Mae requires the *Community Land Trust Ground Lease Rider,* that the lender and the borrower must execute, to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure. (For additional information, see *Selling Guide*, Section B5-5.3, Shared Equity Transactions, for legal considerations.)
- The appraiser must use a three-step process to develop an opinion of value.

| Step | The appraiser must determine |
|---|---|
| 1 | the fee simple value of the property by using the sales comparison approach to value, |


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| Step | The appraiser must determine |
|---|---|
| 2 | the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and |
| 3 | the leasehold value by reducing the fee simple value by the leased fee value. (For detailed information related to this process, see below.) |

**Note:** When this technique is used, there is no need to indicate the land value of the security property in the appraisal report.

- On the appraisal report, the appraiser must
    - indicate "leasehold" as the property rights appraised,
    - provide the applicable ground rent paid to the community land trust,
    - show the estimated fee simple value for the property in the Indicated Value by Sales Comparison Approach field in the appraisal report, and
    - report the "leasehold value" in the Alternate Opinion of Value field in the appraisal report

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### Comparable Selection Requirements for Determining Fee Simple Value

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as they make appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the neighborhood or market area has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which Fannie Mae requires the appraisal of the subject property to be based. See SB4-1.3-08, Comparable Sales, for general requirements regarding comparable selection.

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### Determining the Capitalization Rate

When the neighborhood or market area has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a "riskless" (safe) rate.

### Determining the Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust's ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at their opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust's ground lease is $300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is $100,000:

- $300 annual ground rent/5.75% capitalization rate = $5,217.39 (rounded to $5,200)
- $100,000 fee simple value – $5,200 leased fee value = $94,800 (leasehold value)

### Leasehold Value Requested Condition Commentary

When a leasehold property is held by a community land trust, the appraiser must, in addition to providing a leasehold value as outlined above, include the following details in the Requested Condition Commentary within the Reconciliation section of the appraisal report:

- a detailed description of the leasehold value development,
- the development of the capitalization rate, and
- an expanded discussion of the comparable sales used and considered.

The following statement must also be provided:

"This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the *Community Land Trust Ground Lease Rider*."

# SB4-1.4-07, Appraisal Requirements for Mixed-Use Properties (09/02/2026)

## Introduction

This topic contains information on special appraisal considerations for mixed-use properties with non-residential use(s), including:


- Overview
- Appraisal Requirements for Mixed-Use Properties
- Non-Residential Use Reporting


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## Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties that have a business use in addition to their residential use provided that special eligibility criteria are met. These business uses can include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, or doctor's offices. For eligibility criteria, see SB2-3-04, Special Property Eligibility Considerations.

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## Appraisal Requirements for Mixed-Use Properties

An appraisal of a property with a non-residential use(s) must

- provide a detailed description of the non-residential characteristics of the subject property;
- indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- report any adverse impact on marketability and market resistance to the non-residential use of the property; and
- report the market value of the real property only and exclude any value attributed to the business use.

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## Non-Residential Use Reporting

Non-residential use(s) are reported in the following areas of the Uniform Residential Appraisal Report (URAR):

- When the site is not owned in common, then the type of non-residential use(s) and any non-residential use modifications is identified in the Site section under property use. Commentary on the nature of the non-residential use and modifications, including the extent of the changes and whether they have an adverse impact on marketability as a residential property must be included.

- When the site is owned in common, then any non-residential use(s) in the subject unit is identified in the Unit Interior section. In this case, the appraiser must indicate whether the live/work space is available within the residential unit and include the area used for non-residential purposes.

When a non-residential use is identified within a condo or co-op project but not in the subject unit, it is identified in the Project Information section under commercial space. The appraiser must include the estimated percentage of commercial space and whether the impact of the commercial space is adverse, beneficial, or neutral.


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# SB4-1.4-08, Apparent Environmental Conditions (06/04/2025)

## Introduction

This topic contains information on special appraisal considerations for properties affected by environmental conditions, including:


- Overview
- Appraisal Requirements
- Lender Requirements


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## Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties affected by environmental conditions if the effect of the condition is measurable through an analysis of comparable market data as of the effective date of the appraisal report, and the appraiser reflects in the appraisal report any adverse effect that the apparent environmental condition has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the apparent environmental condition.

In rare situations, a particular environmental condition may have a significant effect on the value of the subject property, although the actual effect is not measurable because the contamination (hazard or nuisance) is so serious or so recently discovered that an appraiser cannot develop a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the environmental condition. In such cases, the loan is not eligible for sale to Fannie Mae.

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## Appraisal Requirements

When the appraiser has knowledge of an apparent environmental condition that impacts the value and marketability of the property, whether it exists onsite, offsite, or on a bordering site (including but not limited to, the presence of hazardous substances, soil or water contamination, radon, underground storage tanks, or a superfund site), the appraiser in the site influence table within the Site section of the Uniform Residential Appraisal Report (URAR) must

- identify the apparent environmental condition(s);
- identify if the apparent environmental condition is onsite, offsite, or bordering the subject site
- provide the approximate distance to the environmental condition, as measured from the closest point of the apparent environmental condition to the subject property line (e.g., number of feet, miles, etc.);
- identify whether the impact to the property is adverse, beneficial, or neutral; and
- comment on the nature of the apparent environmental condition, and its impact on value or marketability.

In addition, the appraiser must make appropriate adjustments in the overall analysis of the property's value and make the appraisal "subject to" inspection by a qualified professional.

Fannie Mae expects the appraiser to consider and use comparable data from the same affected market area because the sales prices of settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect of the apparent environmental condition on value and marketability of the subject property.


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**Note**: Fannie Mae does not consider the appraiser to be an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. The appraiser, however, has a responsibility to note in the appraisal report any apparent environmental conditions that were observed during the inspection of the subject property or information that they became aware of through the normal research involved in performing an appraisal.

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### Lender Requirements

Fannie Mae requires the lender to disclose any apparent environmental conditions to the appraiser and note in the individual loan file accordingly if the real estate agent, the property seller, the property purchaser, or any other party to the loan transaction informs the lender that an environmental condition exists in or on the property, or in the vicinity of the property. Fannie Mae also requires the lender to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.

The lender must make the final decision about the need for inspections and the adequacy of the property as security for the loan. For example, because Fannie Mae requires the appraiser to comment on the effect of an environmental condition on the value and marketability of the subject property, the appraiser would have to note when there is market resistance to an area because of an environmental condition or any other conditions that affect the well, septic, or public water facilities. When the lender has reason to believe the private well water on or available to a property might be contaminated as a result of the proximity of the well to a hazardous waste site, the lender is exercising sound judgment if it obtains a “well certification” to determine whether the water meets community standards.


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# SB4-1.4-09, Special Assessment or Community Facilities Districts Appraisal Requirements (06/04/2025)

## Introduction

This topic contains information on special appraisal considerations for properties in special assessment or community facilities districts, including:


- Overview
- Lender Responsibilities Related to Special Assessment or Community Facilities Districts
- Special Assessment Districts
- Appraisal Requirements for Properties Located in Special Assessment Districts
- Community Facilities Districts
- Appraisal Requirements for Properties Located in Community Facilities Districts


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## Overview

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. In some instances, this involves the creation of local districts called special assessment districts or community facilities districts that have the authority to assess homeowners for the cost of developing utility services and various infrastructure facilities, including, but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

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## Lender Responsibilities Related to Special Assessment or Community Facilities Districts

Fannie Mae expects the lender to know if a property is located in one of these districts and to be aware of the effect that assessments levied by the district could have on property values and the marketability of the subject property. The lender's appraiser, therefore, must give special consideration to the valuation of properties located in these districts.

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## Special Assessment Districts

Special assessment districts, also called special tax districts or municipal utility districts, provide a specific service to homeowners living in a designated area. They are most often established to provide water or other utilities in areas that are not served by existing city or municipal utility services. The need for these districts arises when an existing utility service does not have sufficient capacity or may not find it economically feasible to provide services for newly created subdivisions that are located beyond its current operating area. State law governing the establishment of special assessment districts varies greatly, as does the financial strength of the individual districts. These districts are granted the authority to assess owners of properties within their boundaries for funds that will be used to cover their operating costs and debt service.

Special assessment districts that are established to serve newly developing subdivisions with utilities often base their financial plans and the amount of the assessment to be charged to each property owner on the expected number of properties in the area to be served. The district then depends on the continuation of development to maintain its budget expectations. If, for any reason, development stops short of the degree of development that the district anticipated in preparing its budget, the district can become financially distressed and may need to impose an additional assessment on the existing homeowners.

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### Appraisal Requirements for Properties Located in Special Assessment Districts

For properties located in special assessment districts, the appraiser must

- report any special assessments that affect the property in the Subject Property section of the Uniform Residential Appraisal Report (URAR);
- note in the appraisal report if the special assessment district is experiencing financial difficulty; and
- analyze the impact the special assessment has on the value or marketability of the subject property.

To ensure the market's reaction to potential liabilities within a financially troubled special assessment district is accurately reflected in their analysis, appraisers must consider current and expired listings, properties for sale, pending contract sales, and recently closed sales within the district.

There may be some instances in which the financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there is no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value. When this is the case, a loan secured by a property in that district will not be eligible for sale to Fannie Mae until such time that an active market develops that will enable the appraiser to demonstrate the value and marketability of the subject property.

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### Community Facilities Districts

Some jurisdictions have passed legislation that creates community facilities districts and permits them to levy a special tax to fund the capital costs of a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Proceeds from the special tax are used to support the sale of tax-exempt bonds for the various capital improvements that are allowed under the legislation, including but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

The assessment that will be used to repay the tax-exempt bonds becomes an ongoing responsibility of the property owner, similar to state and local property taxes. The assessment lien and the obligation to pay the assessment passes with the title to the property when ownership of the property is transferred.

Such legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, a lender originating loans in community facilities districts should disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.

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### Appraisal Requirements for Properties Located in Community Facilities Districts

Appraisers must be aware of whether the subject property and the comparables are located within or affected by a community facilities district because properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different assessment or no assessment at all. Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales in their analysis and should note the effect of the assessment in the appraisal report. All special tax assessments must be reported in the Subject Property section of the URAR.

# SB4-1.4-10, Value Acceptance (06/03/2026)

## Introduction

This topic contains information about value acceptance, including:


- Overview
- Prior Appraisal Requirements
- Eligible Transactions
- Ineligible Transactions
- Representations and Warranties
- Exercising Value Acceptance


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## Overview

For certain loan casefiles, DU offers value acceptance, in which case an appraisal is not required. For loan casefiles that are not eligible for value acceptance, DU will require either a Uniform Residential Appraisal Report (URAR) or value acceptance + property data.

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## Prior Appraisal Requirements

For value acceptance to be considered, generally a prior appraisal must be found for the subject property in Fannie Mae's Collateral Underwriter (CU) data. When required, DU will compare the address for the subject property to the property addresses found in CU. DU will use the information from the prior appraisal to determine if the loan casefile is eligible for value acceptance. In some cases, the prior appraisal report may not be acceptable. For example, if a CU "Overvaluation Flag" was issued on the prior appraisal, or the appraisal report could not be scored, that prior appraisal will not be used and value acceptance will not be offered on the new loan casefile.

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## Eligible Transactions

A value acceptance offer will be considered for the following transactions:

- one-unit properties, including condos;
- principal residence and second home transactions;
- investment property refinance transactions;
- certain purchase, limited cash-out, and cash-out refinance transactions; and
- DU loan casefiles that receive an Approve/Eligible recommendation.

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## Ineligible Transactions

The following transactions are not eligible for a value acceptance offer:

- two- to four-unit properties;
- co-op units and manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- HomeStyle Renovation and HomeStyle Refresh loans;
- leasehold properties;


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- Texas Section 50(a)(6) loans;
- community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

**Note:** DU may offer value acceptance on a recently constructed property (i.e., new construction) when there is an existing "as is" prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different lender or borrower, but that loan did not close. The lender may exercise the value acceptance offer when the loan meets all other eligibility criteria for the transaction.

Furthermore, the lender may not exercise a value acceptance offer and must order an appraisal if one or more of the following applies:

- DU was unable to identify ineligible criteria in the list above (for example, Texas Section 50(a)(6) loans);
- the lender is required by law to obtain an appraisal (see *Selling Guide* A3-2-01, Compliance With Laws);
- the lender is using rental income from the subject property to qualify the borrower; or
- the lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events.

**Note:** The lender may not exercise a value acceptance offer if an appraisal is obtained for the transaction.

See *Selling Guide* B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan for additional information about high LTV refinance value acceptance.

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### Representations and Warranties

When a loan casefile is eligible for value acceptance and the offer is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. See *Selling Guide* A2-2-06, Representations and Warranties on Property Value for more information.

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### Exercising Value Acceptance

A lender may only exercise value acceptance when

- the final submission of the loan casefile to DU resulted in a value acceptance offer,
- an appraisal is not obtained for the transaction, and
- the value acceptance offer is not more than four months old on the date of the note and the mortgage.

Lenders that elect to exercise value acceptance must include Special Feature Code (SFC) 801 at loan delivery. Lenders may not adversely select against Fannie Mae in determining which value acceptance offers to accept. Fannie Mae may monitor the lender's exercise of value acceptance offers and delivery of loans to Fannie Mae and may take appropriate measures if adverse selection is identified.


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# SB4-1.4-11, Value Acceptance + Property Data (12/10/2025)

## Introduction

This topic contains information on value acceptance + property data including:


- Overview
- Eligible Transactions
- Ineligible Transactions
- Representations and Warranties
- Property Data Collection
- Property Data Collector
- Exercising Value Acceptance + Property Data
- Property Data Collection with Needed Repairs or Completion Verification


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## Overview

For certain loan casefiles, DU offers value acceptance + property data, an option that requires interior and exterior property data collection to verify property eligibility prior to the note date. An appraisal is not required.

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## Eligible Transactions

Loan casefiles for certain one-unit properties will be considered for value acceptance + property data.

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## Ineligible Transactions

The following transactions are not eligible for value acceptance + property data:

- two- to four-unit properties;
- co-op units;
- manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- investment properties when rental income is used to qualify the borrower;
- HomeStyle Renovation and HomeStyle Refresh loans;
- Texas 50(a)(6) loans;
- leasehold properties;
- community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

The lender may not exercise a value acceptance + property data offer and must order an appraisal if one or more of the following applies:

- DU was unable to identify ineligible criteria in the list above (for example, Texas Section 50(a)(6) loans);
- the lender is required by law to obtain an appraisal (see *Selling Guide* A3-2-01, Compliance With Laws); or


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- the lender believes an appraisal is warranted based on additional information the lender has about the property or subsequent events.

**Note:** The lender may not exercise a value acceptance + property data offer if an appraisal is obtained for the transaction.

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### Representations and Warranties

When a loan casefile is eligible for value acceptance + property data and the offer is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. See *Selling Guide* A2-2-06, Representations and Warranties on Property Value for more information.

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### Property Data Collection

The property data collection consists of a visual observation of the interior and exterior areas of the subject property. It must be performed by a trained and vetted property data collector and must adhere to the Uniform Property Dataset (UPD). This dataset consists of all required, conditionally required, and optional data elements for the property data collection of subject property data including photos and a floor plan conforming to the ANSI® standard. See *Above and Below Grade Area(s)* in SB4-1.3-05, Dwelling Exterior, Unit Interior, and Outbuilding Sections of the Appraisal Report for ANSI standards, and the *Property Data Collection User Guide* and *Uniform Property Dataset (UPD) Specification* for more information.

After the property data collection is completed, it must be successfully submitted to Fannie Mae's Property Data Application Programming Interface (API). See Fannie Mae's website for more information about the UPD and the Fannie Mae Property Data API and access.

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### Property Data Collector

The property data collector is the individual who personally visits the subject property to perform the property data collection guided by an application on a hand-held device developed in compliance with the UPD. The property data collector must identify and communicate any defect, damage, or deficiency that affects the soundness or structural integrity of the improvement(s) and significant items of incomplete construction or renovation.

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#### Lender Vetting of Property Data Collectors

The lender must verify and be able to demonstrate that the data collectors are

- selected in accordance with Fannie Mae requirements, including the *Property Data Collector Independence Requirements,*
- vetted through an annual background check,
- professionally trained, and
- in possession of the essential knowledge to competently complete the property data collection.

The lender must ensure that the data collectors are trained to comply with their fair lending laws and deliver accurate results unaffected by personal biases. To avoid conflict of interest, the lender must ensure that the data collector has no interest in or ties to the underlying loan origination transaction, participants, or subject property.

The lender (or its authorized agent) must review the data collector's credentials and qualifications on an annual basis to ensure ongoing compliance. Evidence of the reviews must be available to Fannie Mae upon request. The lender must also have a procedure for suspending or terminating business with individual property data collectors.

The lender must monitor and assess the work performed by the data collector through the lender's quality control program including prefunding and post-closing reviews. The lender must continually evaluate the quality of its property data collectors and property data collection. See *Selling Guide,* Subpart D1, Lender QC Process, for additional information.

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### Exercising Value Acceptance + Property Data

A lender may only exercise value acceptance + property data when

- the final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data,
- property data collection is submitted to the Property Data API prior to the note date,
- an appraisal is not obtained for the transaction, and
- the offer is not more than four months old on the date of the note and mortgage.

Lenders that elect to exercise value acceptance + property data must include Special Feature Code 774 at loan delivery. The property data collection is only valid for 12 months from the date of collection and must be performed prior to the note date.

If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in some cases it may be possible for the lender to provide the property data collection to an appraiser to perform a hybrid appraisal. See SB4-1.2-03, Hybrid Appraisals for specific requirements. Alternatively, the lender may obtain a desktop or traditional appraisal report as specified by DU.

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### Property Data Collection with Needed Repairs or Completion Verification

The lender must represent and warrant that the property

- does not have soundness or structural integrity issues;
- does not have significant items of incomplete construction or renovation; and
- meets Fannie Mae's property eligibility requirements (see SB2-3-01, General Property Eligibility).

To make these representations and warranties in the absence of an appraisal, the lender must examine the descriptive information and photo exhibits from the property data collection to determine whether the property meets the above requirements.

When the property data collection denotes items that potentially do not meet the eligibility requirements, the lender may need to obtain a professionally prepared report from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.). If repairs or alterations are necessary to bring the property into compliance with Fannie Mae's eligibility requirements, the lender must provide satisfactory evidence and documentation showing the condition has been corrected or completed prior to sale of the loan to Fannie Mae.

See *Completion Report and Completion Alternatives* in SB4-1.2-05, Requirements for Verifying Completion and Postponed Improvements for the applicable requirements to verify completion of repairs, alterations, or inspections.


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# SB4-2.1-01, General Information on Project Standards (08/05/2026)

### Introduction

This topic contains general information on Fannie Mae's project standards, including:


- Fannie Mae's Project Risk Overview
- Project Documentation
- Condominium Project Questionnaire
- Project Types
- Project Review Methods
- Waiver of Project Review
- Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project
- Priority of Common Expense Assessments
- Delivery Requirements
- Expiration for Project Reviews


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### Fannie Mae's Project Risk Overview

The quality of mortgages secured by units in condo, co-op, and planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. Before delivering a loan secured by an individual unit in a project, the lender must determine that the project meets Fannie Mae's eligibility requirements.

Project eligibility risk is a risk that is distinct from the credit risk presented by individual borrowers. Units located in a project present risk that are also distinct from the risks associated with properties that are not part of a homeowners' association (HOA) or project. These risks include the following:

- the financial stability and viability of the project;
- the condition and marketability of the project;
- limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements;
- dissolution of the project and the unit owner's resulting rights and responsibilities;
- project-level litigation;
- project-level misrepresentation and fraud;
- the inability to cure a mortgage default due to restrictions in the project documents such as, but not limited to, right of first refusal provisions; and
- insurance coverage that is inadequate to protect the project from unexpected losses.

Project eligibility and financial strength are key drivers of credit performance on individual unit mortgages and critical to the long-term success of the project. Fannie Mae's project eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are demonstrably well-managed.

Lenders that sell mortgage loans secured by units in a condo, co-op, or PUD project to Fannie Mae are expected to have staff that are knowledgeable about and qualified to evaluate the specific risks presented by these types of projects. The project review is in addition to the review the lender completes for underwriting the borrower, the transaction terms, and the Uniform Residential Appraisal Report (URAR) for the individual unit.

Fannie Mae's project standards requirements are intended to address common project types across a broad geographic range. If a lender determines that a project does not meet all of Fannie Mae's project eligibility criteria, but feels that the project has merit and warrants additional consideration, the lender may request an exception (see *Selling Guide* B4-2.2-05, Projects with Special Considerations, for additional information).

## Project Documentation

The documentation needed to complete a project review may differ depending on the project and review type. Lenders are responsible for determining the documentation needed to ensure that the project meets all of Fannie Mae's eligibility requirements. Project documentation may include, but is not limited to, the following:

- legal and recorded documents including the covenants, conditions and restrictions, declaration of condominium, or other similar documents that establish the legal structure of the project;
- project budgets, financial statements, and reserve studies;
- project construction plans;
- architects' or engineers' reports;
- completion reports;
- project marketing plans;
- environmental hazard reports;
- attorney opinions;
- appraisal reports;
- evidence of insurance policies and related documentation; and
- condominium project questionnaires.

Sources for project information include, but are not limited to, appraisers, HOAs, co-op corporations, management companies, real estate agents, insurance professionals, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

### Document Retention

Lenders must retain all of the project documentation needed to demonstrate that the project meets Fannie Mae's eligibility requirements, including any documentation the lender relied upon to enter information into CPM. This documentation must be retained, and made available upon request, as long as lenders originate mortgages from the project, and until all mortgages sold to Fannie Mae have been liquidated.

## Condominium Project Questionnaire

The *Condominium Project Questionnaire (Form 1076)* helps lenders collect data to determine condo project eligibility. This form is optional; however, lenders are encouraged to use and retain the form in the loan file. A substantially similar form may also be used in its place.

## Project Types

The scope of Fannie Mae's requirements and the specific eligibility criteria to be met are dependent upon various project types and/or loan level characteristics. The characteristics that define each project type are described in the following table.

| Project Type | Identification Criteria |
|---|---|
| Established condo project | A project for which all of the following are true:<br>• at least 90% of the total units in the project have been conveyed to unit purchasers;<br>• the project is 100% complete, including all units and common elements;<br>• the project is not subject to additional phasing or annexation; and<br>• control of the HOA has been turned over to the unit owners.<br><br>A project may also be treated as an established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met:<br><br>• construction is 100% complete;<br>• the project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners;<br>• the developer's share of the units held back for rental is no more than 20% of the project's total units;<br>• HOA fees are paid current in developer-held units; and<br>• there are no active or pending special assessments in the project. |
| New condo project | A project for which one or more of the following is true:<br>• fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exception noted in the row above);<br>• the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;<br>• the project is newly converted;<br>• the project is subject to additional phasing or annexation; or<br>• HOA still in the developer's control. |
| Detached condo project | A project comprised solely of detached units or that comprises a mixture of attached and detached units and may be a new or established project. |
| Two- to ten-unit condo project | A project comprised of two- to ten- residential units in which each unit is evidenced by its own title and deed. A two- to ten-unit condo project may be either a new or established project and may be comprised of attached and/or detached units. |
| Manufactured home project | A project consisting partially or solely of manufactured homes. |

| Project Type | Identification Criteria |
|---|---|
| Co-op project | A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.<br><br>**Note:** A condop project is a type of co-op project that operates inside a condo development. See *Selling Guide* B4-2.3-02, Co-op Project Eligibility, for additional information on condop projects. |
| Planned unit development (PUD) project | A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners. The unit owners in the project have title to a residential property (lot and structure) and an interest in the HOA that owns or manages the common area and facilities of the PUD.<br><br>See *Selling Guide* B4-2.3-01, Eligibility Requirements for Units in PUD Projects, for additional detail used in determining whether a project is new or established and subject to Fannie Mae's PUD eligibility requirements. |

### Horizontal Property Regimes

Fannie Mae considers a development to be a condo project any time it is declared or filed as a horizontal property regime in accordance with local statutes. Exception is made, if the local statute provides for the horizontal property regime to be created as a PUD development and the project's legal documents specifically state that the project is a PUD.

Lenders must determine if the subject unit is located in a condo or PUD and use the appropriate mortgage documents.

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## Project Review Methods

Fannie Mae purchases or securitizes mortgage loans secured by units in condo, co-op, and PUD projects that meet Fannie Mae's eligibility requirements. To determine whether the project meets these requirements, a number of project review methods are available. Whether a project review method is allowable or required depends on

- the number of units in the project (two- to ten- or more than ten;
- the unit type (attached or detached);
- the project type (condo, co-op, or PUD);
- the project status (new or established); and
- the mortgage transaction.

The characteristics that dictate which method to use are shown in the following table.

| Unit and Project Type | Project Review Methods |
|---|---|
| Attached condo unit in a new or newly converted project, including a five- to ten-unit project that is part of a larger development or master association | • Full Review completed with Condo Project Manager (CPM), or<br>• Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process |
| Attached condo unit in an established project, including a five- to ten-unit project that is part of a larger development or master association | • Full Review (with CPM),<br>• FHA Project Approval (HUD Review and Approval Process only), or<br>• Fannie Mae Review through the streamlined PERS process (for established condo projects) |
| • Unit in a new or established two- to ten-unit condo project.<br>• Unit in a new or established five- to ten-unit condo project that is not part of a larger development or master association.<br><br>**Note:** Attached units in a five- to ten-unit condo project that is part of a larger development or master association must be reviewed using the Full Review method. | Project review is waived, with the exception of some basic requirements that apply. |
| Detached unit in a new or established condo project | Project review is waived, with the exception of some basic requirements that may apply. |
| Unit in a co-op project | • Full Review<br>• Fannie Mae Review through the standard PERS process<br><br>**Note**: Lenders must obtain special approval to be eligible to deliver co-op share loans to Fannie Mae secured by ownership interest in a co-op share project. See *Selling Guide* A2-1-01, Contractual Obligations for Sellers/Servicers, for additional information. |

| | |
|---|---|
| Established condo project consisting of manufactured homes not subject to a community land trust, ground lease, or shared equity arrangement | Full Review (without CPM) |

| Unit and Project Type | Project Review Methods |
|---|---|
| • New condo or PUD project consisting of manufactured homes, (including those subject to a community land trust, ground lease, or shared equity arrangement)<br>• Newly converted non-gut rehabilitation condo and co-op projects (with attached units) that contain more than four units<br>• Limited or shared equity co-op projects, provided the limited or shared equity provisions are designed to preserve or promote access to affordable housing | Fannie Mae Review through the standard PERS process |
| Established condo or established PUD project consisting of manufactured homes subject to a community land trust, ground lease, or shared equity arrangement | Fannie Mae Review through the streamlined PERS process |
| Unit in a PUD project | Project review is waived, with the exception of some basic requirements that apply |
| Unit in a condo project approved by the FHA | FHA Project Approval (see *Selling Guide* B4-2.2-03, FHA-Approved Condo Review Eligibility for additional details) |

**Note**: Unless specifically noted in the above table, all references to manufactured homes may be single-section, multi-section, or a combination of both. Manufactured homes with resale restrictions must meet the resale restriction requirements in *Selling Guide* Section

### Waiver of Project Review

Fannie Mae does not require a thorough project review for several types of projects or loan transactions, including:

- detached condo units;
- units in a two- to ten-unit condo project;
- attached units in a five- to ten-unit condo project that are not part of a larger development or master association;
- units in a PUD project, except for PUD projects consisting of single-section and/or multi-section manufactured homes subject to a community land trust, ground lease, or shared equity arrangement;
- Fannie Mae to Fannie Mae limited cash-out refinances with LTV ratios < 80%; and
- high LTV refinance loans.

See *Selling Guide* B4-2.1-02, Waiver of Project Review for additional information and for the requirements that apply when a project review is waived.

### Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project

All mortgages secured by units in condo, co-op, or PUD projects must comply with the following:

- requirements specific to the project review method used to determine that project's eligibility;
- property eligibility requirements (described in Chapter B2-3, Property Eligibility);
- priority of common expense assessments (described below); and
- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in *Selling Guide* Chapter B4-1, Property Assessment and Valuation).

### Priority of Common Expense Assessments

Fannie Mae allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is located in a jurisdiction that has enacted

- the Uniform Condominium Act,
- the Uniform Common Interest Ownership Act, or
- a similar statute that provides for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project for purchase by Fannie Mae.

| If the condo or PUD project... | Then... |
|---|---|

| | |
|---|---|
| is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides that regular common expense assessments will have priority over Fannie Mae's mortgage lien for a maximum amount greater than six months, | the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014, may have priority over Fannie Mae's mortgage lien, provided that if the applicable jurisdiction's law as of that date referenced an exception for Fannie Mae's requirements, then no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien. |

| If the condo or PUD project... | Then... |
|---|---|
| is located in any other jurisdiction, | no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even if applicable law provides for a longer priority period. |

Notwithstanding any provisions to the contrary in the Guide, which do not require the lender to represent or warrant compliance with Fannie Mae project legal document requirements, the condo or PUD project legal documents must evidence compliance with the above priority of common expense assessment requirements.

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### Delivery Requirements

When delivering a loan for a unit located in a project, the lender must provide the Project Type Code and any applicable special feature codes as shown in the following table. The lender must also report all other applicable special feature code(s), including those specified in a variance in the Lender Contract and in the Special Feature Codes document on Fannie Mae's website.

| Project Type Code | Description |
|---|---|
| E | Established PUD project |
| F | New PUD project |
| R | Full Review—New condo project |
| S | Full Review—Established condo project |

| Project Type Code | Description |
|---|---|
| T | Fannie Mae-approved condo or PUD project, including those that<br>have an approved by Fannie Mae status in CPM,<br>are approved through PERS,<br>receive a CPM Approved by Fannie Mae message in DU |
| U | FHA-approved condo project |
| V | Condo project review waived - for certain project and transaction types |
| 1 | Full Review—Co-op project |
| 2 | Fannie Mae-approved co-op project, including those approved through PERS |
| **Special Feature Code** | **Description** |
| 588 | Detached Condominium Unit<br>Used to identify detached units in an attached or detached condominium project |

**CPM ID Delivery Requirements**

Lenders are required to deliver the CPM ID number in the field for "FNM Condominium Project Manager Project Identifier" (Sort ID 39) in ULDD for the following projects:

- projects that require the use of CPM; and
- Fannie Mae-approved projects that are delivered as Type T for condos or PUDs, or Type 2 for co-ops.

Lenders are encouraged to include the condo or co-op's HOA or Project IRS Federal Tax Identification Number (TIN) in the loan file and in CPM.

### Expiration for Project Reviews

Project reviews must meet the following timeline requirements.

| Project Review Process Employed | Expiration of Project Review |
|---|---|
| Full Review for Established Projects | Must have been completed within one year prior to the note date |
| Full Review for New Projects | Must have been completed within 180 days prior to the note date |
| Approved by Fannie Mae as reflected in CPM | Must be valid (unexpired) as of the note date |
| Approved by FHA | Must be valid (unexpired) as of the note date |

Loans must be delivered to Fannie Mae within 120 days following the note date. When the elapsed time between note date and delivery date exceeds this limit, the lender may deliver the loan only if the project continues to meet Fannie Mae project eligibility requirements at the time of delivery.

Loans secured by units in a project that fails to meet Fannie Mae's project eligibility requirements under the applicable review type as of the note date are eligible for delivery after the project comes into compliance with the eligibility requirements (provided all standard mortgage seasoning and other applicable requirements are met). For example, if a lender closes a loan in a new project for which the pre-sales are less than the pre-sale requirement, the lender may deliver the loan after the project's pre-sales meet the Fannie Mae requirement (assuming the loan meets all other applicable requirements).

# SB4-2.2-04, Project Eligibility Review Service (PERS) (08/05/2026)

## Introduction

This topic contains information on Fannie Mae's Project Eligibility Review Service (PERS), including:


- Overview
- Standard PERS Submission Process
- Required Forms for Standard PERS Submission
- Additional Requirements—For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects
- Additional Requirements - For Condo and PUD Projects Comprised of Manufactured Homes
- Streamlined PERS Submission Process—For Established Projects
- Approval Designations
- Availability of Project Information
- Decision Expiration Dates


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## Overview

PERS is a review method available to lenders to submit new, newly converted, and established projects to Fannie Mae to determine eligibility. Some projects must be submitted to PERS while a PERS submission is optional for other projects, as shown in the table below.

| Standard PERS Process | Streamlined PERS Process |
|---|---|
| **Required for:**<br>• new condo and new PUD projects consisting of manufactured homes (including those subject to a community land trust, ground lease, or shared equity arrangement);<br>• newly converted non-gut rehabilitation condo and co-op projects with attached units that contain more than four units; and<br>• limited or shared equity co-op projects, provided the limited or shared equity provisions are designed to preserve or promote access to affordable housing.<br>**Optional for:**<br>• all other new or newly converted condo projects not listed above. | **Required for:**<br>• established condo or established PUD projects consisting of manufactured homes subject to a community land trust, ground lease, or shared equity arrangement.<br>**Optional for:**<br>• established condo projects. |

**Note**: Unless specifically noted in the above table, all references to manufactured homes may be single-section, multi-section, or a combination of both. Manufactured homes with resale restrictions must meet the resale restriction requirements in *Selling Guide* B5-5.2, Loans with Resale Restrictions.

### Standard PERS Submission Process

The standard PERS submission process is described below:

| Step | Action |
|---|---|
| 1. | The lender performs a review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements of the Full Review process prior to submission to PERS.<br><br>See below for additional lender pre-PERS submission review requirements<br><br>• for newly converted non-gut rehabilitation condo projects, and<br>• for projects consisting of manufactured homes. |
| 2. | The lender completes a project submission package, that includes:<br><br>• *Project Eligibility Review Service Document Checklist* (Form 1030) for condo projects or *Project Eligibility Review Service Document Checklist - Co-op Projects* (Form 1078) for co-op projects.<br>• *Application for Project Approval* (Form 1026).<br><br>See below for additional forms that may be required. |


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| Step | Action |
|---|---|
| 3. | The condo project's legal documents must comply with the Fannie Mae's requirements listed in *Selling Guide* B4-2.2-02, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects.<br>• A qualified attorney engaged by the lender must review the condo project legal documents and determine that the documents are in compliance with Fannie Mae's requirements.<br>• This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents, or an attorney employed by the lender, but they cannot be an employee, principal, or officer of the developer or sponsor of the project.<br>• The lender must complete the *Warranty of Condominium Project Legal Documents* (Form 1054) and attach the attorney review as part of the PERS submission process. |
| 4. | The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See *Selling Guide* E-1-02, List of Contacts. |
| 5. | A member of the Project Standards team reviews the package to determine if the project is eligible for approval. |
| 6. | Upon completion of the review, Fannie Mae issues its decision to the lender via email and updates the project status in Condo Project Manager (CPM). |
| 7. | Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their "Monthly Technology Invoice." For fees, see the Project Eligibility Review Service (PERS) Overview on Fannie Mae's website. |

### Required Forms for Standard PERS Submission

The forms shown below are required for a standard PERS submission.

| Form | Title | Description |
|---|---|---|
| 1026 | *Application for Project Approval* | Requires certification that the lender has "underwritten" the project; includes non-residential space, common areas, sales plan, construction warranty, budget, builder/developer information, status of construction, |

| Form | Title | Description |
|---|---|---|
| | | environmental issues, resale restrictions, phasing, project management. |
| 1029 | *Warranty of Project Presales* | Requires lender certification of sales and presales information. |
| 1030 | *Project Eligibility Review Service Document Checklist* | Checklist confirming all required condo documents have been provided (see below). |
| 1051 | *Project Development/Master Association Plan* | Requires lender certification of submitted information; includes master association and sub-association description and structure, common areas, title policy, master association budget, "as-built" survey or master plan. |
| 1054 | *Warranty of Condominium Project Legal Documents* | Requires lender certification of compliance with laws and Fannie Mae legal requirements. |
| 1071 | *Statement of Insurance and Fidelity Coverage* | Requires lender certification of all insurance requirements; addresses specific insurance types and clauses, and requires the lender to obtain and review all policies. |
| 1073A | *Analysis of Annual Income and Expenses – Operating Budget* | Requires lender certification that the operating budget has been analyzed; detailed operating budget information to be completed by HOA and lender. |
| 1078 | *Project Eligibility Review Service Document Checklist - Co-op Projects* | Checklist confirming all required co-op documents have been provided (see below). |

| Form | Title | Description |
|---|---|---|
| 1079 | *Limited or Shared Equity Co-op Worksheet* | Requires information for certain co-op projects. |
| 1081 | *Final Certification of Substantial Project Completion* | Lender certification that project is substantially complete; lender to document any exceptions or uncompleted. |

### Additional Requirements — For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects

A non-gut rehabilitation refers to the renovation of a property that does not involve structural or functional changes, such as the replacement of all HVAC and electrical components. Rather, the rehabilitation might include, for example, the replacement of appliances and carpeting.

In order for a newly converted non-gut rehabilitation condo or co-op project to receive project approval through the standard PERS process, the project must comply with the following requirements.

| ✓ | Lender Pre-PERS Submission Review Requirements – For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects |
|---|---|
| | The project cannot be an ineligible project in accordance with *Selling Guide* B4-2.1-03, Ineligible Projects. |
| | For condo projects — The condo project must comply with all requirements of the Full Review (as provided in *Selling Guide* B4-2.2-01, Full Review Process and B4-2.2-02, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects).<br><br>For co-op projects — The co-op project must comply with all requirements for co-op projects (as provided in *Selling Guide* B4-2.3-02, Co-op Project Eligibility, B4-2.3-03, Legal Requirements for Co-op Projects, and B4-2.3-05, Geographic-Specific Co-op Project Considerations). |
| | All rehabilitation work involved in the condo or co-op conversion must have been completed in a professional manner. |
| | A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components. |

| ✓ | Lender Pre-PERS Submission Review Requirements – For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects |
|---|---|
| | The project budget must contain line items for<br>• reserves to adequately support the costs identified in the reserve study, and<br>• a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered. |
| | Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the reserve account of the HOA or of the co-op corporation, in addition to the amount stated immediately above. |
| | The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale. |
| | Generally, at least 50% of the total condo units or co-op stocks or shares in the project or subject legal phase must have been conveyed or be under contract for purchase to principal residence or second home purchasers. |
| | Up to 30% of the units (or of stocks or shares for co-ops) in projects that are subject to rent regulations, which protect tenants from eviction (if they have chosen not to purchase their unit), will be permitted. |
| | Phasing of projects (single building or multiple buildings) will be considered on a project basis. |
| | The project sponsor or developer must provide a comprehensive sales and marketing strategy. |
| | All projects are subject to a site inspection. |

### Additional Requirements - For Condo and PUD Projects Comprised of Manufactured Homes

For a condo or PUD project comprised of manufactured homes to receive project approval through the standard PERS process, the project must comply with the following requirements.

| ✓ | Lender Pre-PERS Submission Review Requirements - For Projects Consisting of Manufactured Homes |
|---|---|
| | Review all aspects of the project to determine that it satisfies Fannie Mae eligibility requirements as stated in SB4-2.1-01, General Information on Project Standards. |
| | Review all aspects of the project to determine that it meets all eligibility requirements for the Full Review for condos, requirements for PUDs, and any other applicable requirements. |
| | Review the manufactured housing unit to confirm that it meets all requirements of SB4-1.4-01, Factory-Built Housing: Manufactured Housing. |
| | Perform a thorough underwriting analysis of the project and provide the conclusion of such analysis.<br><br>**Note**: If the project is subject to a ground lease, the ground lease must meet the eligibility requirements in SB2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates. |

**Note:** Lenders are responsible for reviewing the loan-level manufactured home requirements in SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing (02/04/2026), SB4-1.4-01, Factory-Built Housing: Manufactured Housing (02/04/2026), and *Selling Guide* Chapter B5-2, Manufactured Housing.

### Streamlined PERS Submission Process—For Established Projects

The streamlined submission process for established condo projects is as follows:

| Step | Action |
|---|---|
| 1. | The lender performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS. |
| 2. | The lender completes a project submission package, which includes:<br><br>• *Application for Approval of Established Project* (Form 1091).<br>• *Condominium Project Questionnaire* (Form 1076), or a substantially similar form, completed within the past 180 days.<br>  ○ |

| Step | Action |
|---|---|
| | • Current fiscal year's approved operating budget reflects homeowners' association income and expenses.<br>• Reserve study completed within the past 24 months (only required for projects that are not funding a minimum of a 10% dedicated expense allocation in the budget to a replacement reserve for the future repair/replacement of the project's major components). |
| 3. | The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See *Selling Guide* E-1-02, List of Contacts. |
| 4. | A member of the Project Standards team reviews the package to determine if the project is eligible for approval. |
| 5. | Upon completion of the review, Fannie Mae issues its decision to the lender via email and updates the project status in Condo Project Manager (CPM). |
| 6. | Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their "Monthly Technology Invoice." For fees, see the Project Eligibility Review Service (PERS) Overview on Fannie Mae's website. |

Fannie Mae reserves the right to request additional documentation it deems necessary to conduct a full review of the project.

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### Approval Designations

Upon completion of its review, Fannie Mae will issue one of the following project approval designations:

- Conditional Project Approval,
- Final Project Approval,
- Ineligible, or
- Suspension of the Application.

Loans delivered with a PERS review must have a valid Fannie Mae Final Project Approval prior to delivery. Loans may not be delivered under the Conditional Project Approval, Ineligible, or Suspension of the Application designations.

### Availability of Project Information

Lenders submitting projects to PERS must ensure that the developer, builder, management company, and/or HOA will provide project information to Fannie Mae as and when requested without charge. In the event the requested information is not provided, Fannie Mae reserves the right to withdraw the PERS approval.

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### Decision Expiration Dates

Conditional Project Approval: expires 9 months from the date of issue.

Final Project Approval: expires 18 months from the date of issue.

**Note**: Fannie Mae, in some instances and in its sole discretion, may set a shorter or longer expiration term.

For information on requesting an extension, see the Project Eligibility Review Service (PERS) Overview on Fannie Mae's website.

# SB4-2.3-01, Eligibility Requirements for Units in PUD Projects (08/05/2026)

Introduction

This topic contains information on PUD projects, including:

- PUD Project Requirements
- Eligibility Requirements for Units in PUD Projects

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## PUD Project Requirements

For a project to qualify as a PUD, all of the following requirements must be met:

- each unit owner's membership in the HOA must be automatic and nonseverable,
- the payment of assessments related to the unit must be mandatory,
- common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners, and
- the subject unit must not be legally created as part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects under Fannie Mae's policies. These projects

- have no common property and improvements,
- do not require the establishment of and membership in an HOA, and
- do not require the payment of assessments.

Fannie Mae classifies PUD projects as either

- Type E —established PUD projects in which the developer has turned over voting control of the HOA to the unit purchasers.
- Type F —new PUD projects in which the developer has not turned over voting control of the HOA to the unit purchasers.

Certain PUD projects require submission to PERS. See *Selling Guide* B4-2.2-04, Project Eligibility Review Service (PERS) for additional information.

New or established PUD projects consisting of single-section and/or multi-section manufactured homes not subject to a community land trust, ground lease, or shared equity arrangement may be reviewed in accordance with *Selling Guide* B4-2.1-02, Waiver of Project Review.

**Note:** Manufactured homes with resale restrictions must meet the resale restriction requirements in *Selling Guide* B5-5.2, Loans with Resale Restrictions.

## Eligibility Requirements for Units in PUD Projects

Lenders must determine that the PUD project and subject unit meet the requirements described in *Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project* in SB4-2.1-01, General Information on Project Standards.

**Note**: Any unit legally created as part of a condo or co-op project located within a larger PUD project or master association must meet the applicable requirements for condo or co-op projects.

For additional information applicable to PUD projects subject to a ground lease, see SB2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates.


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# SB4-2.3-02, Co-op Project Eligibility (05/06/2026)

**Introduction**

This topic contains information on co-op project eligibility, including:

- Co-op Project Eligibility Overview
- Request for Co-op Project Information
- Eligibility Requirements for Co-op Projects
- Eligibility Requirements for Condop Projects

## Co-op Project Eligibility Overview

Fannie Mae purchases or securitizes co-op share loans for units in co-op projects from lenders specially approved to sell such loans to Fannie Mae. Lenders must determine the acceptability of a co-op project, unless the project is a newly converted non-gut rehabilitation of a co-op project. Such projects must be submitted via the Project Eligibility Review Service (PERS) to Fannie Mae for review.

The lack of available co-op project data and the inconsistent reporting of co-op project information can be a barrier to obtaining affordable financing for co-op housing. Lenders are responsible for determining the most appropriate method for obtaining information about co-op projects and the accuracy of the information they obtain.

For additional information, see:

- A2-1-01, Contractual Obligations for Sellers/Servicers,
- B4-2.3-04, Loan Eligibility for Co-op Share Loans,
- B4-2.2-04, Project Eligibility Review Service (PERS),
- B4-2.1-01, General Information on Project Standards.

## Request for Co-op Project Information

The *Request for Cooperative Project Information* ( Form 1074) includes the project information that lenders, investors, and mortgage insurers may use in their evaluation of the eligibility of a co-op project, and provides an efficient means of collecting basic project information from co-op project management agents, boards of directors, or sponsors/developers.

## Eligibility Requirements for Co-op Projects

The table below provides project eligibility requirements for co-op projects.

| ✓ | Full Review Eligibility Requirements –<br>For New and Established Co-op Projects |
|---|---|
| | For a co-op share loan to be eligible for sale, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code. The lender's loan or project approval file must contain evidence regarding the project's compliance with Section 216.<br><br>Note: If the co-op project does not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project. |
| | The co-op housing project must<br>be designed principally for residential use;<br>consist of two or more units; and<br>be located in an area that has a demonstrated market acceptance for the co-op form of ownership, as reflected by the availability of similar comparable sales for co-op units in the market area. |
| | The project may be owned in fee simple or be a leasehold estate (subject to a ground lease).<br>Note: For additional information applicable to co-op projects subject to a ground lease, see B2-3-03, Special Property Eligibility and Underwriting Considerations: Leasehold Estates |

| ✓ | Full Review Eligibility Requirements –<br>For New and Established Co-op Projects |
|---|---|
| | The lender is responsible for determining that the co-op cooperation holds title to the property of the co-op project, including the dwelling units. A type of co-op project that does not meet these requirements is one in which the borrower, not the co-op corporation, owns their dwelling unit in the project. Co-op share loans in these projects are commonly referred to as "land-home" or "land-lease" co-op projects and require special approval for delivery to Fannie Mae. |
| | The co-op corporation must have good and marketable title to the property, including the dwelling units and amenities. The project premises must be free and clear of liens and encumbrances in accordance with B7-2-05, Title Exceptions and Impediments. |
| | The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.<br>The blanket mortgage for the project may be a balloon mortgage. The remaining term may not be less than three months, provided refinance terms have been secured, or the loan will be paid off before maturity. If the balloon mortgage incorporates an adjustable-rate feature, and the remaining term is less than three years but not less than six months, the current interest rate may not be subject to an interest rate adjustment prior to the maturity date.<br>Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage. However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available to the borrower must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that is attributable to the subject unit's ownership interest. |
| | Fannie Mae will not purchase or securitize co-op share loans if the co-op project is an ineligible project type, regardless of the characteristics of the share loan. See B4-2.1-03, Ineligible Projects. |
| | The project must not be a manufactured housing project. |
| | The project must meet Fannie Mae's insurance requirements, as stated in *Subpart B7, Insurance*. |
| | Co-op projects may be newly constructed or conversions of existing buildings. |
| | All newly converted non-gut rehabilitation of co-op share projects must be approved through the PERS process.<br>A newly converted non-gut rehabilitation co-op project is defined as follows:<br>a project for which the building has been recently converted from another use such as, but not limited to, apartment use, hotel building, or warehouse;<br>the renovation work did not involve structural or functional changes, such as the replacement of all HVAC and electrical components and was limited to cosmetic or design changes such as painting, flooring, and appliances; and,<br>the project meets the criteria for being a new project because any of the following conditions exist with respect to the status of the project: |

| ✓ | Full Review Eligibility Requirements –<br>For New and Established Co-op Projects |
|---|---|
| | fewer than 90% of the stock or shares have been sold to purchasers;<br>the developer or sponsor is in control of the co-op corporation;<br>the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a co-op; or<br>the project is subject to additional phasing or annexation. |
| | The following newly converted projects may be reviewed by the lender through the standard co-op review process rather than being submitted to PERS:<br>any non-gut rehabilitation conversion project that was converted at least three years prior to the co-op share loan note date that is considered “newly converted” solely because more than 20% of the stock or shares are owned by the sponsor as described in the single entity ownership provisions in ; and<br>two- to four-unit non-gut rehabilitation conversions. |
| | All units, common areas, and facilities within the project must be 100% complete. The project cannot be subject to additional phasing or annexation. All construction and rehabilitation for the project must be completed in a professional manner before Fannie Mae purchases or securitizes the share loan, unless the Project Standards Team approves delivery at an earlier date. |
| | Phase I and II environmental hazard assessments are not required for co-op projects unless the lender identifies an environmental problem through the performance of its project underwriting and due diligence.<br>In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in E-2-02, Suggested Format for Phase I Environmental Hazard Assessments. |
| | Stock, share, or other contractual agreement evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers. |
| | The project’s most recent operating budget and most recent two years audited financial statements, or corporate tax returns must<br>be consistent with the nature of the project,<br>provide for adequate cash flow to service the current debt and operating expenses, and<br>provide for adequate replacement and operating reserves.<br>If the most recent budget is not available, the lender may rely on a review of the co-op corporation’s two most recent years audited financial statements or corporate tax returns to determine that the financial requirements in this section have been met. |
| | If there is any negative cash flow for the present year, it may not exceed 5% of the co-op project's most recent audited financial statement and may not have two consecutive years' operating loss. The negative cash flow must be attributable to an isolated non-recurring expense. |

| ✓ | Full Review Eligibility Requirements –<br>For New and Established Co-op Projects |
|---|---|
| | If negative cash flow is from sponsor-held unsold units, the following requirements must be met:<br>such negative cash flow (including, but not limited to, any principal and interest payments relating to the financing obtained by the sponsor to acquire the co-op project) will not exceed an amount equal to 5% of the project's annual operating budget;<br>if the sponsor fails to pay the monthly assessments relating to all co-op units owned by the sponsor, the monthly assessments of the co-op share owners other than the sponsor will not increase by more than 10%;<br>the sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than 10% of the units; and<br>the sponsor has not pledged any of the shares of the co-op project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the co-op project. |
| | The project must have a good financial record, with no more than 15% of the owners being more than 60 days past due in the payment of their financial obligations to the co-op corporation. Note: This includes payment of each special assessment. |
| | If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years, the lender must evaluate the impact the expiration of such benefit will have on the project. If the benefit is scheduled to expire within three years from the note date, the lender must include the higher monthly fees in the borrower's monthly liabilities for debt-to-income ratio qualifying purposes. |
| | The project and share loan documentation must comply with any specific legal requirements established for the state in which the project is located. |
| | The co-op corporation must have the sole ownership interest in the project's facilities, common elements, and limited common elements, except as noted below.<br>Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:<br>a description of the shared amenities subject to the arrangement;<br>a description of the terms under which unit owners in the project may use the shared amenities;<br>provisions for the funding, management, and upkeep of the shared amenities; and<br>provisions to resolve conflicts between the residential projects regarding the amenities.<br>Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.<br>The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable. |


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A condop is a mixed-use development that is a condo project of two or more condo units in which one unit is an exclusively residential co-op project and the remaining unit(s) are used exclusively for commercial purposes. The land may be held in fee simple or under a ground lease by the condo project. Condop project refers to the co-op project that operates inside a condop development.

The table below provides project eligibility requirements for condop projects.

| ✓ | Full Review Eligibility Requirements –<br>For New and Established Condop Projects |
|---|---|
| | The condop project must comply with all other requirements for co-op projects including those provided in:<br>• B4-2.3-02 Co-op Project Eligibility,<br>• B4-2.3-03, Legal Requirements for Co-op Projects, and<br>• B4-2.3-04 Loan Eligibility for Co-op Share Loans.<br><br>In addition to all other requirements for co-op projects, the condop project must account for the majority of the condo unit holders' square footage of non-common element space in the condo. A loan secured by a unit in a condop project must meet all other requirements for co-op loans.<br><br>The co-op project must hold the majority of the undivided percent interest in the common elements. The common elements include interest in the land, foundations, and shared building systems and spaces that serve more than one dwelling or commercial unit, including parking. |
| | The project board of directors must exercise effective control of the condo board, including voting rights proportional to their common interest in the condo project. However, the commercial condo unit owners may have other subordinate governance mechanisms relating exclusively to the use and operation of the commercial condo units. |
| | The current operating budget and most recent two years audited financial statements or corporate tax returns for the co-op and the condo projects must show that each entity:<br>Generates revenue greater than expenses, and<br>Maintains sufficient liquid assets for unexpected events.<br>If the most recent budget is not available, the lender may rely on a review of the co-op corporation's two most recent years audited financial statements or corporate tax returns to determine that the financial requirements in this section have been met.<br><br>Any loans between the condo and co-op projects must be in good standing.<br>The co-op and condo components of the condop development must be evaluated together to ensure overall financial and operational stability. |

# SB5-2-02, Manufactured Housing Loan Eligibility (12/10/2025)

## Introduction

This topic contains information on manufactured housing loan eligibility, including:

- General Loan Eligibility Criteria
- Ineligible Manufactured Housing Criteria
- Manufactured Housing Standards

## General Loan Eligibility Criteria

Fannie Mae purchases loans secured by manufactured homes that meet the following general criteria:

- first-lien mortgages only,
- fully amortizing fixed-rate loans,
- fully amortizing ARM loans with initial fixed-rate periods of 7 years or 10 years,
- principal residence one-unit (single- and multi-section),
- principal residence two- to four-unit (single- and multi-section), and
- second home one-unit (multi-section only).

**Note**: To comply with HUD's Manufactured Home Construction and Safety Standards, two- to four-unit and multi-story manufactured homes are required to be constructed on or after September 16, 2024.

Refer to the *Eligibility Matrix* for additional restrictions and maximum allowable LTV, CLTV, and HCLTV ratios.

A manufactured home may be located on an individual lot or in a condo or PUD project development, see *Project Review Methods* in S B4-2.1-01, General Information on Project Standards for additional information. A manufactured home located on leased land and subject to a ground lease is only eligible if the manufactured home is owned (not leased) by the borrower and in a condo or PUD project approved by Fannie Mae's Project Eligibility Review Service (PERS), see SB4-2.2-04, Project Eligibility Review Service (PERS).

See *Selling Guide* B5-5.3-03, Shared Equity Transactions: Eligibility, Underwriting and Collateral Requirements when a manufactured home is subject to a community land trust.

## Ineligible Manufactured Housing Criteria

The following are ineligible for loans secured by manufactured housing:

- investment properties,
- manufactured homes located on leased land and subject to a ground lease, unless located in a Fannie Mae- approved condo or PUD project, and
- manufactured homes in co-op projects.

## Manufactured Housing Standards

The loan must be secured by both the manufactured home and the borrower's interest in the land on which it is situated, and both the manufactured home and the land must be legally classified as real property under applicable state law.

**Note:** At the time of sale of the loan to Fannie Mae, the home must no longer be classified as personal property, and all steps required to classify the home as real property must have been completed.

See SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing, and Manufactured Housing Product Matrix for additional information.

# SB5-2-03, Manufactured Housing Underwriting Requirements (12/10/2025)

Introduction

This topic contains information on manufactured housing underwriting considerations, including:


- Underwriting and DU Requirements
- Loan Amount
- Down Payment Requirements
- Trade Equity from the Borrower's Existing Manufactured Home
- Traded Manufactured Homes
- Purchase Money Transactions
- Limited Cash-Out Refinance Transactions
- Cash-Out Refinance Transactions
- New Construction of a Manufactured Home
- Construction-to-Permanent  Transactions


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### Underwriting and DU Requirements

Loans secured by manufactured homes (including MH Advantage properties) must be underwritten through DU.

When entering the property information into DU, the lender must correctly identify the property type as a manufactured home or MH Advantage, and identify whether it is in a condo, co-op, or PUD project.

**Note:** DU does not distinguish between single-section and multi-section.

DU checks the subject property addresses against manufactured home property addresses in the DU property database. If DU's database indicates the property may be a manufactured home, DU will return a message alerting the lender. DU's issuance of this message does not necessarily mean the property is a manufactured home, nor does the absence of this message indicate that Fannie Mae accepts the accuracy of the property type as it was submitted

Lenders must research the subject property type. If it is determined the property is a manufactured home, the lender must correct the property type and resubmit the loan casefile to DU. If it is NOT a manufactured home, the loan may be delivered with the appraisal recommendation provided by DU.

**Note:** DU will issue a message reminding the lender to ensure that the MH Advantage or single-section manufactured

home requirements are met, in addition to all other manufactured housing requirements.

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### Loan Amount

The loan amount may include the following costs:

- cost of the manufactured home;
- cost of the land;
- the costs of construction, including
    - bona fide and documented transportation costs,
    - costs for site preparation, which may include the cost to remove an existing manufactured home and other outbuildings,
    - foundation,
    - establishing utilities,
    - all site improvements, and
    - dwelling installation at the site.

Any personal property items (non-realty items) purchased in conjunction with the manufactured home must be deducted from the sales price and cannot be financed as part of the loan.

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### Down Payment Requirements

A minimum down payment of 5% must come from the borrower's own funds unless:

- the LTV or CLTV ratio is less than or equal to 80%;
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See B3- 4.3-04, Personal Gifts; B3-4.3-06, Grants and Lender Contributions; and B3-4.3-08, Employer Assistance, for additional information; or
- the property meets the MH Advantage requirements and the loan meets the requirements for LTV ratios of 95.01- 97%. In this case, the borrower must contribute a minimum down payment of 3%, from their own funds unless the loan meets the gift, grant, or funds from an employer policy referenced above.

The borrower's equity in the land is considered the borrower's own funds. Where the borrower holds title to the land on which the manufactured home will be permanently attached, the value of the land may be credited toward the borrower's minimum down payment (or equity requirement for a refinance). The borrower's equity contribution will be the difference between any outstanding liens against the land and the market value of the land.

The following table describes how to determine the value of the land based on when and how the borrower acquired the land.

| Date of Land Purchase | Value of the Land | Documentation Requirements |
|---|---|---|
| More than 12 months preceding the loan application. | The current appraised value. | None. |
| 12 or fewer months preceding the date of the loan application. | The lesser of the sales price or the current appraised value. | The lender must document the borrower's cash investment by obtaining:<br>• a copy of the settlement statement,<br>• a copy of the warranty deed that shows there are no outstanding liens against the property, or<br>• a copy of the release of any prior liens(s). |
| The borrower acquired the land at any time as a gift, inheritance, or other non- purchase transaction. | The current appraised value. | The lender must obtain appropriate documentation to verify the acquisition and transfer of ownership of the land. |

### Trade Equity from the Borrower's Existing Manufactured Home

Trade equity from the borrower's existing manufactured home may be used as part of the borrower's minimum down payment requirement. The maximum equity contribution from the traded manufactured home is 90% of the retail value for the traded manufactured home based on the *NADA Manufactured Housing Appraisal Guide* except:

- If the borrower has owned the traded manufactured home for less than 12 months preceding the date of the loan application, the maximum equity contribution is the lesser of 90% of the retail value or the lowest price at which the home was sold during that 12 month period.

- Any costs associated with the removal of the traded home or any outstanding indebtedness secured by liens on the home must be deducted from the maximum equity contribution.

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### Traded Manufactured Homes

For traded manufactured homes, Fannie Mae requires a lien search in the appropriate real property and personal property records to verify ownership and to determine whether there are any existing liens on the manufactured home and land, or on the home and the land if they are encumbered by separate liens. The seller of the new manufactured home must provide proof of title transfer and satisfaction of any existing liens on the traded manufactured home.

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### Purchase Money Transactions

Purchase money transactions are those in which the mortgage proceeds are used to finance the purchase of the manufactured home or the manufactured home and the land. The land may be previously owned by the borrower, either free of any mortgage or subject to a mortgage that will be paid off with the proceeds of the new purchase money mortgage.

**Note:** The borrower does not receive any cash back with a purchase money transaction.

### New Manufactured Homes

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by a newly built manufactured home that is being attached to a permanent foundation system in connection with a purchase transaction will be based on the lower of:

- the sales price of the manufactured home plus:

    - the lowest sales price at which the land was sold during that 12 month period if the land was purchased in the 12 months preceding the loan application date; or

    - the current appraised value of the land if the land was purchased more than 12 months preceding the loan application date.

- the "as completed" appraised value of the manufactured home and land.

### Existing Manufactured Homes

An existing manufactured home is one that already exists on its foundation.

### Manufactured Home Subdivision Development

In cases where a manufactured home is being sold to a consumer by a builder, developer, or manufacturer acting as a developer as part of a new or existing manufactured home subdivision, the LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by an existing manufactured home will be based on the lower of:

- the sales price of the manufactured home and land; or
- the current appraised value of the manufactured home and land.

### All Other Transactions

The LTV ratio (and CLTV/HCLTV ratio, if applicable) for a loan secured by an existing manufactured home will be based on the lowest of:

- the sales price of the manufactured home and land;
- the current appraised value of the manufactured home and land; or
- if the manufactured home was built in the 12 months preceding the loan application date, the lowest price at which the home was previously sold during that 12-month period, plus the lower of:
    - the current appraised value of the land, or
    - the lowest price at which the land was sold during that 12-month period (if there was such a sale).

**Note:** The above purchase requirements do not apply to single-closing construction-to-permanent transactions. See B5- 3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions for additional information.

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### Limited Cash-Out Refinance Transactions

Limited cash-out refinance transactions may involve the following scenarios:

- payoff of an existing personal property lien on a new manufactured home (or an existing lien on the home and a mortgage on the land if encumbered by separate liens), or
- payoff of a first lien mortgage secured by an existing manufactured home and land (or existing mortgages for the home and land if encumbered by separate liens).

### UAD 3.6 Policy

The maximum LTV ratio (and CLTV ratio, if applicable) for a limited cash-out refinance transaction for a loan secured by a manufactured home and land will be based on the lower of:

- the current appraised value of the manufactured home and land; or
- if the manufactured home was owned by the borrower for less than 12 months on the loan application date and:
    - if the home and land are secured by separate liens, the lowest price at which the home was previously sold during that 12-month period plus the lower of the current appraised value of the land, or the lowest sales price at which the land was sold during that 12-month period (if there was such a sale);
    - if the home and land are secured by a single lien, the lowest price at which the home and land were previously sold during that 12-month period.

Proceeds of a limited cash-out refinance mortgage may be used to:

- pay off the outstanding principal balance of an existing personal property lien or first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens);
- pay off the outstanding principal balance of an existing subordinate mortgage or lien secured by the manufactured home and/or land, but only if it was used to purchase the manufactured home and/or land;
- finance costs of construction;
- finance closing costs (including prepaid expenses); and
- provide cash back to the borrower in an amount not to exceed the lesser of 2% of the balance of the new refinance mortgage or $2,000.

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### Cash-Out Refinance Transactions

A cash-out refinance:

- involves the payoff of an existing first lien mortgage secured by the manufactured home and land (or existing liens if the home and land were encumbered by separate first liens); or
- enables the property owner to obtain a mortgage on a property that does not already have a mortgage lien against it, and permits the borrower to take equity out of the property in the form of mortgage proceeds that may be used for any purpose.

To be eligible for a cash-out refinance, the property must be a one-unit multi-section manufactured home (single-section manufactured homes are not permitted). The borrower must have owned both the manufactured home and land for at least 12 months preceding the date of the loan application. The LTV, CLTV, and HCLTV ratios will be based on the current appraised value of the manufactured home and land.

### New Construction of a Manufactured Home

When the mortgage loan funds the construction of a new manufactured home, construction must be complete when the loan is purchased (or securitized) by Fannie Mae. As a reminder, if construction is completed after the first payment date of the subject loan, the loan may be subject to the property value requirements (loans more than four months old at time of purchase) or seasoned loan requirements in B2-1.5-02, Loan Eligibility.

### Construction-to-Permanent Transactions

The following construction-to-permanent transactions are permitted for the construction and permanent financing of a manufactured home:

- single-closing transactions processed as a purchase or limited cash-out refinance, and
- two-closing limited cash-out refinances. (Two-closing cash-out refinances are not permitted.)

The loan must meet the requirements in Section B5-3.1, Conversion of Construction-to-Permanent Financing, and all other manufactured home requirements in this Guide.

# SB5-2-04, Manufactured Housing Pricing, Mortgage Insurance, and Loan Delivery Requirements (12/10/2025)

## Introduction

This topic contains information about manufactured housing, including:

- Loan-Level Price Adjustments
- Mortgage Insurance
- Loan Delivery Requirements

## Loan-Level Price Adjustments

An LLPA applies to all mortgages secured by manufactured homes that do not meet the MH Advantage requirements, whether delivered to Fannie Mae for whole loan purchase or MBS issuance. These LLPAs are in addition to any other price adjustments that are otherwise applicable to the particular transaction. For the current LLPAs, see the *Loan-Level Price Adjustment (LLPA) Matrix*.

## Mortgage Insurance

For mortgage insurance coverage requirements, see B7-1-02, Mortgage Insurance Coverage Requirements.

## Loan Delivery Requirements

The following table describes the requirements for delivery of certain data elements that are applicable to manufactured homes.

| Manufactured Home Type | Construction Method Type (Sort ID 51) | Manufactured Home Width Type (Sort ID 33) | Special Feature Code(s) |
|---|---|---|---|
| Single-section | Manufactured | Singlewide | 235 and 791 |
| Multi-section | | Multiwide | 235 |
| MH Advantage | | Multiwide | 235 and 859 |
| MH Advantage | | Singlewide | 235, 791, and 859 |

**Note:** These special feature codes are in addition to any other special feature codes that may apply.


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# SB5-2-05, Manufactured Housing Legal Considerations (12/10/2025)

## Introduction

This topic contains information on manufactured housing legal considerations, including:


- Closing Instructions
- Post Closing Items and Conversion to Real Property
- Certificate of Title
- Title Issues and Lien Requirements
- Title Insurance
- Loan Documents
- The Security Instrument
- Affidavit of Affixture
- Background Information Regarding Titling for Manufactured Homes
- Background Information on States where Surrender of a Certificate of Title is not Permitted


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## Closing Instructions

Closing instructions must advise closing agents to obtain the required documentation necessary to ensure that the manufactured home is attached to a permanent foundation system on the land, thus becoming part of the real property.

If a closing agent is not available to perform this action, the lender can rely on the Completion Report completed by the appraiser.

In addition, where state law provides that a manufactured home may be exempt from certificate of title requirements (for instance, where a home is attached initially to a permanent foundation system), such closing instructions must instruct the closing agent to ensure that the manufactured home qualifies for exemption from certificate of title requirements, including monitoring of property installation procedures and the related documentation, and to provide the lender with documentary evidence of that for retention in the loan file.

Where state law allows for the elimination of the certificate of title, the closing instructions must instruct the closing agent to perform all necessary procedures to:

- assure that the certificate of title to the manufactured home is properly retired, and
- provide the lender with documentary evidence for retention in the loan file.

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### Certificate of Title

The table below provides conditional requirements pertaining to the manufactured home certificate of title.


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| If … | Then … |
|---|---|
| state law permits the manufactured home to become real property when it is immediately affixed to the permanent foundation system, without issuance of a certificate of title, | the lender must if the transaction involves the purchase of a new manufactured home obtain, and retain as part of the loan file, evidence that no certificate of title was issued.<br><br>For example, if the lender obtains the manufacturer's certificate of origin, this would be evidence, in most states, that no certificate of title could have been issued. |
| a certificate of title has been issued, but state law provides for or permits surrender of the certificate of title, | the lender must obtain, and retain as part of the loan file, evidence that the certificate has been surrendered.<br><br>Such evidence includes:<br><br>• the confirmation required to be provided by the authority to which the certificate was surrendered, or<br><br>• if no such confirmation is obtainable:<br><br>  ○ a copy of the documents submitted in connection with the surrender, and<br><br>  ○ evidence that such documents were delivered to the appropriate authority. |
| a certificate of title has been issued, but state law does not permit the manufactured home to become real property without issuance of a certificate of title and does not provide for surrender of the certificate of title, | the lender must adhere to the following requirements:<br><br>• The lien must be indicated on the certificate of title. |

| If … | Then … |
| --- | --- |
| | • The certificate of title must be retained in the loan file.<br>• The lender must assure that no other lien is indicated on the certificate of title.<br>• Ownership of the manufactured home as shown on the certificate of title and ownership of the land (or of the leasehold estate, if applicable) as shown on the mortgage, deed of trust, or security deed must be identical (that is, the same individuals must sign both, each using the exact same name on both documents). |

**Note**: Given certain provisions of Mississippi law and the practice in the state, the requirements in the last row of the above table apply to manufactured homes in Mississippi. (The other two options in this table do not apply.)

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### Title Issues and Lien Requirements

To be eligible for purchase by Fannie Mae:

- A manufactured home loan must be secured by a perfected lien (or liens) on real property consisting of the manufactured home and the borrower's interest in the land.

The manufactured home must be legally classified as real property under applicable state law, including relevant statutes, regulations, and judicial decisions.

**Note:** At the time of sale of the loan to Fannie Mae, the home must no longer be classified as personal property, and all steps required to classify the home as real property must have been completed.

To assist lenders in originating manufactured home loans in various states, Fannie Mae publishes information on titling manufactured homes as real property. Note, this information does not constitute legal advice; lenders must consult their own legal counsel. See Titling Manufactured Housing.

The following requirements are also applicable:

- The owner of the manufactured home must own the land on which the home is situated unless the manufactured home is located in a condo or PUD project subject to a ground lease approved by Fannie Mae's Project Review Eligibility Service (PERS).

- The manufactured home must be attached to a permanent foundation on the land and comply with state and jurisdictional requirements for permanent affixation.

- A mortgage, deed of trust, or security deed must be recorded in the land records and must identify the encumbered property as including both the home and the borrower's interest in the land.

- If applicable state law so permits, any certificate of title to the manufactured home must be surrendered to the appropriate state government authority.

- If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate.

Fannie Mae prefers that a loan on the manufactured home and the land on which it is situated be secured by a single lien.

However, it is recognized that some state laws do not provide for a single lien on both the manufactured home and the land. Therefore, a loan documented by a lien on the borrower's interest in the land evidenced by a mortgage, deed of trust or security deed and by a real property lien on the manufactured home evidenced on the certificate of title or other document is acceptable.

**Note**: Loans in which there is a chattel lien on the home plus a real property lien on the land are unacceptable.

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### Title Insurance

The mortgage must be covered under a standard real property title insurance policy that insures that the manufactured home is part of the real property that secures the loan.

American Land Title Association® (ALTA®) Endorsement 7, 7.1, or 7.2 or any other endorsement required in the applicable jurisdiction for manufactured homes to be treated as real property must be included in the file.

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### Loan Documents

Fannie Mae prefers lenders to use the standard Fannie Mae Uniform Instruments (see *Security Instruments*).

If the Uniform Instruments are not used, then the lender must adhere to the following requirements:

- A single note must be used evidencing all the debt related to the land and the home, and a mortgage, deed of trust, or Georgia security deed securing such indebtedness (plus the certificate of title if state law so requires).

- The note used must provide the nonstandard document warranties that are referenced in A2-2-03, Document Warranties.

Loan documents are not acceptable if they:

- state that the home is personal property or contain other words to that effect;
- state that the parties do not intend to attach the home to a permanent foundation system on the land, or contain statements inconsistent with that intention;
- unless required by law, provide that rights of holders in due course are waived, or with other words provide that an assignee note holder may be held liable for claims the borrower may have against other parties; or
- include consumer finance paper which combines the note and security instrument in a single document or a retail installment sales contract.

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### The Security Instrument

The security instrument must:

- state that the manufactured home is an improvement to the land and an immovable fixture, or include similar language as may be required by applicable law to assure, to the greatest extent possible, that the manufactured home will be treated as real property under applicable state law. If applicable law provides specific obligatory wording, such wording must be used; and
- include a comprehensive description of the manufactured home and the land in the property description section.

The description must include the serial or VIN number (or the serial number or VIN for each unit if the home is multi- section), make, model, size, and any other information that may be required by applicable law to definitively identify the home.

**Note**: The serial number is located on the HUD Data Plate located on the interior of the home, usually near the electrical box. In addition, the serial number is generally cold-stamped on the frame front cross member of each transportable section.

Some jurisdictions may not allow any information in the property description section of the security instrument other than what is customary for other real property transactions. If this is the case, then an addendum may be used, which must be attached to the security instrument and included in the loan file.

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### Affidavit of Affixture

The borrower(s) must sign an Affidavit of Affixture (which must be in the form prescribed by applicable law, if any) that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage free of any personal property security interest. If the manufactured home was previously converted from personal property to real property in accordance with applicable law, the Affidavit is not required by Fannie Mae unless applicable law requires a new Affidavit. Where applicable law does not require an Affidavit to be recorded, it is preferable

that an Affidavit be recorded.

**Note**: If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.

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**Background Information Regarding Titling for Manufactured Homes**

Titling is complex and further complicated by the lack of a federal standard. Consequently, all states devise their own laws resulting in diverse approaches to manufactured home titling and lien perfection. The variety of approaches is particularly challenging for lenders originating manufactured home loans in more than one state. Laws of some states do not clearly provide for a single lien on the manufactured home, together with the land on which it is situated, but instead, for example, require that the lien on the manufactured home be evidenced by notation on the certificate of title.

While the laws of some states establish a procedure for surrender of the certificate of title when the manufactured home has become so permanently affixed to the land that it has become real property, the laws of other states do not allow for the elimination of the certificate of title to a manufactured home regardless of the degree of affixation of the home to the land. In these states, the lien on the land (evidenced by the mortgage, deed of trust or security deed) may be legally distinct from the lien on the manufactured home (evidenced on the certificate of title), though both are liens on real property. In this instance, the manufactured home is often treated as an "immovable fixture" (personal property that has become so permanently attached to the land that it has become real property).

Research on state laws affecting manufactured housing liens indicates, more specifically, that in order to document a lien on a manufactured home that is real property, state laws take several approaches:

- surrendering the certificate of title when the manufactured home is permanently affixed to the land;
- statutory, regulatory, or judicial authority for recognizing a manufactured home as part of the real property, without surrender of the certificate of title. A few states also require UCC filings; or
- recognizing the manufactured home as real property without issuing a certificate of title when the unit is affixed to the land.

Most states permitting manufactured homes to be treated as real property without first being titled as personal property also have procedures for issuing a certificate of title and then surrendering it.

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**Background Information on States where Surrender of a Certificate of Title is not Permitted**

State law that does not provide for surrender of the certificate of title may pose some additional risk to the lender and Fannie Mae.

Under the UCC, as adopted in almost every state, a lien evidenced on any outstanding certificate of title will have priority over a lien on real property to which the manufactured home is affixed, which is evidenced by a mortgage, deed of trust, or security deed.

However, Fannie Mae believes that if a lender follows procedures tailored to take advantage of all protection offered under existing state law —including taking steps to assure that no certificate of title still exists that bears evidence of any lien securing any other loan —sufficient legal protection is afforded.

# SB5-3.1-01, Conversion of Construction-to-Permanent Financing: Overview (06/04/2025)

## Introduction

This topic contains an overview of conversion of construction-to-permanent mortgage loan financing.


- Conversion of Construction-to-Permanent Financing Overview


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## Conversion of Construction-to-Permanent Financing Overview

The conversion of construction-to-permanent financing involves the granting of a long-term mortgage to a borrower for the purpose of replacing interim construction financing that the borrower has obtained to fund the construction of a new residence.

Construction-to-permanent financing can be structured as a transaction with one closing or a transaction with two separate closings. The borrower must hold title to the lot, which may have been previously acquired or be purchased as part of the transaction.

All construction work, including any work that could entitle a party to file a mechanic's or materialmen’s lien, must be completed and paid for, and all mechanic's liens, materialmen’s liens, and any other liens and claims that could become liens relating to the construction must be satisfied before the mortgage loan is delivered to Fannie Mae. The lender must retain in its individual loan file a Completion Report or a completion alternative of the completed property. When a construction-to-permanent mortgage loan provides funds for acquisition or refinancing of an unimproved lot and the construction of a residence on the lot, the lender must retain a certificate of occupancy or an equivalent form from the applicable government authority.

The lender must use Fannie Mae/Freddie Mac uniform instruments to document the permanent mortgage. These documents may not be altered to include any reference to construction of the property, other than any alteration that Fannie Mae specifically requires.

Attached units in a condo project and all co-op properties are ineligible for construction-to-permanent financing. Detached units in condo projects are permitted for construction-to-permanent financing, including manufactured homes in a condo project (subject to applicable project review requirements).

For guidance on data entry for construction-to-permanent transactions in DU, see the related Desktop Underwriter Job Aid.


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# SB5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions (05/06/2026)

### Introduction

This topic contains information on construction-to-permanent financing loan eligibility for single-closing transactions, including:


- Single-Closing Transaction Overview
- Terms of Construction Loan Period for Single-Closing Construction-to-Permanent Mortgages
- Eligible Loan Purposes for Single-Closing Construction-to-Permanent Mortgages
- Calculating the LTV Ratio for Single-Closing Construction-to-Permanent Mortgages
- Down Payment Requirements for Single-Closing Purchase Transactions
- Modifications of Single-Closing Construction-to-Permanent Mortgages
- Underwriting Single-Closing Construction-to-Permanent Mortgages
- Age of Credit Documents
- Age of Appraisal Documents
- Requalification Requirements
- Loan Conversion Documentation Options


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### Single-Closing Transaction Overview

Single-closing transactions may be used for both the construction loan and the permanent financing if the borrower wants to close on both the construction loan and the permanent financing at the same time. When a single-closing transaction is used, the lender will be responsible for managing the disbursement of the loan proceeds to the builder, contractor, or other authorized suppliers.

Because the loan documents specify the terms of the permanent financing, the construction loan will automatically convert to a permanent long-term mortgage loan upon completion of the construction.

Loans that combine construction and permanent financing into a single transaction cannot be purchased by Fannie Mae until the construction is completed and the terms of the construction loan have converted to the permanent financing.

Manufactured homes must meet all applicable requirements, including compliance with SB5-2-05, Manufactured Housing Legal Considerations.

Lenders must use SFC 151 when delivering single-closing construction-to-permanent loans to Fannie Mae (and any other SFCs that may apply to the transaction).

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### Terms of Construction Loan Period for Single-Closing Construction-to-Permanent Mortgages

For all single-closing construction-to-permanent transactions, the construction loan must be structured as a temporary loan exempt from the ability to repay requirements under Regulation Z. The construction loan period for single-closing construction-to-permanent transactions may have no single period of more than 12 months and the total period may not exceed 18 months. Lenders may, when needed to complete the construction, provide an extension to the original period to total no more than 18 months but the documents may not indicate an initial construction period or subsequent extension of more than 12 months. After conversion to permanent financing, the loan must have a loan term not exceeding 30 years (disregarding the construction period).

As examples, lenders may structure the construction loan period as follows:

- three 6–month periods,
- one 12–month period and one 6–month period, or
- six 3–month periods.

Exceptions to the 12-month and 18-month periods will not be granted. The above construction period requirements do not apply to two-closing construction-to-permanent transactions. If the construction loan period exceeds the requirements above, the lender must process the loan as a two-closing construction-to-permanent transaction in order for the loan to be eligible for sale to Fannie Mae (see *Selling Guide* B5-3.1-03, Conversion of Construction-to-Permanent Financing: Two-Closing Transactions).

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### Eligible Loan Purposes for Single-Closing Construction-to-Permanent Mortgages

A single-closing construction-to-permanent mortgage loan may be closed as:

- a purchase transaction, or
- a limited cash-out refinance transaction.

When a purchase transaction is used, the borrower is not the owner of the lot at the time of the first advance of interim construction financing, and the borrower is using the proceeds from the interim construction financing to purchase the lot and finance the construction of the property.

When a limited cash-out refinance transaction is used, the borrower must have held legal title to the lot before they receive the first advance of interim construction financing. The borrower is using the proceeds from the construction financing to pay off any existing liens on the lot and finance the construction of the property. This type of transaction is not a "true" limited cash-out refinance whereby the borrower refinances a loan(s) that was used to purchase a completed property; however, all other requirements for limited cash-out refinances apply. See *Selling Guide* B2-1.3-02, Limited Cash-Out Refinance Transactions and the limited cash-out refinance requirements in *Selling Guide* B5-2-03, Manufactured Housing Underwriting Requirements.

**Note**: Cash-out refinance transactions are not eligible for single-closing construction-to-permanent mortgages.

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### Calculating the LTV Ratio for Single-Closing Construction-to-Permanent Mortgages

Single-closing construction-to-permanent mortgages are subject to the purchase and limited cash-out refinance maximum LTV, CLTV, and HCLTV ratios (based on property type) provided in the *Eligibility Matrix*, as applicable.

The LTV ratio calculation differs depending on whether the transaction is a purchase or a limited cash-out refinance, as shown in the table below.

| Transaction Type | Lot Ownership Requirement | LTV Ratio Calculation |
|---|---|---|
| Purchase | The borrower is not the owner of record of the lot at the time of the first advance of interim construction financing. | Divide the loan amount of the construction-to-permanent financing by the lesser of:<br>• the purchase price (sum of the cost of construction and the sales price of the lot), or |

| Transaction Type | Lot Ownership Requirement | LTV Ratio Calculation |
|---|---|---|
| | | • the "as completed" appraised value of the property (the lot and improvements).<br>The loan amount of a manufactured home can include all allowable costs as listed in *Selling Guide* B5-2-03, Manufactured Housing Underwriting Requirements |
| Limited Cash-out Refinance | The borrower is the owner of record of the lot at the time of the first advance of interim construction financing. | Divide the loan amount of the construction-to-permanent financing by the "as completed" appraised value of the property (the lot and improvements). |

### Down Payment Requirements for Single-Closing Purchase Transactions

The borrower must use their own funds to make the minimum borrower contribution unless:

- the LTV, CLTV, or HCLTV ratio is less than or equal to 80%; or
- the borrower is purchasing a one-unit principal residence and meets the requirements to use gifts, donated grant funds, or funds received from an employer to pay for some or all of the borrower's minimum contribution. See *Selling Guide* B3-4.3-04, Personal Gifts; B3-4.3-06, Grants and Lender Contributions; and B3-4.3-08, Employer Assistance, for additional information.

### Modifications of Single-Closing Construction-to-Permanent Mortgages

If the terms of the permanent financing change after the original closing date of the construction loan, the loan may be modified to reflect the new terms if it meets all of the following criteria:

- The modification must take place prior to or at the time of conversion.
- Only the following loan terms may be modified in a single-closing transaction:
    - interest rate,
    - loan amount,
    - loan term, and
    - amortization type.

  The only amortization change permitted is from an adjustable-rate amortization to a fixed-rate amortization.

  Changes made to any other loan terms will require a two-closing construction-to-permanent transaction.

- The loan must be underwritten based on the terms of the loan as modified and delivered to Fannie Mae. If the final (modified) terms of the loan do not match the last submission to DU, the loan must be resubmitted to DU (subject to *Underwriting Single-Closing Construction-to-Permanent Mortgages* and *Requalification Requirements* described below) unless the results of either the loan amount or the interest rate is within the DU resubmission tolerances in *Selling Guide* B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report.

- Increases to the loan amount are permitted only as necessary to cover documented increased costs of construction of the property.
- If the modification results in an increase in the original loan amount, the lender remains responsible for all standard title insurance requirements. In addition, the lender must obtain an endorsement to the title insurance policy that

    - extends the effective date of the coverage to the date of the recording of the modification agreement;
    - increases the amount of the policy to the original loan amount, as increased; and
    - confirms that the lien of the mortgage, as modified, continues to be a first lien.

  **Note**: Both the original construction loan amount at closing and the final modified loan amount delivered to Fannie Mae must meet the loan limits currently in effect.
- The original construction loan must be documented on Fannie Mae uniform instruments or substantially similar documents, subject to the non-standard document representations and warranties.
- The modification must be documented on one of the following:

    - *Loan Modification Agreement (Providing for Fixed Interest Rate)* (Fannie Mae Form 3179);
    - *Loan Modification Agreement (Providing for Adjustable Interest Rate)* (Fannie Mae Form 3161); or
    - A substantially similar document, subject to the non-standard document representations and warranties.

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### Underwriting Single-Closing Construction-to-Permanent Mortgages

The lender must underwrite a single-closing construction-to-permanent loan based on the terms of the permanent financing. If the permanent financing terms are modified, and no longer reflect the terms on which the underwriting was based, the loan must be re-underwritten, subject to certain re-underwriting tolerances. The loan data at delivery must match the data in the final submission of the loan casefile to DU, subject to the DU resubmission tolerances.

As described in the following table, re-underwriting tolerances may be applied if the interest rate or loan amount was modified. (All other modifications require re-underwriting.)

| Modified Loan Term | Re-underwriting Tolerances |
|---|---|
| Interest Rate | • For loans underwritten through DU: see the tolerances and resubmission requirements in *Selling Guide* B3-2-10, Accuracy of DU Data, DU Tolerances, and Errors in the Credit Report.<br>• For manually underwritten loans: if the recalculated DTI (based on the change in rate or loan amount) does not exceed 45%, the loan must be re-underwritten with the updated information to determine if the loan is still eligible for delivery.<br>**Note:** If the increase in the DTI ratio moves the DTI ratio above the 36% threshold, the loan must meet the credit score and reserve requirements in the *Eligibility Matrix* that apply to DTI ratios greater than 36% up to 45%. |
| Loan Amount | |

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### Age of Credit Documents

All credit documents must be no more than four months old on the note date (that is, the closing date of the construction loan). Additionally, income, employment, and credit report documents must be no more than four months old at the time of conversion to permanent financing. As an exception, these documents may be more than four months but not exceeding 18 months old at

the time of the conversion to permanent financing if the following conditions were met at the time of the original closing of the construction loan:

- The LTV, CLTV, and HCLTV ratios do not exceed 95%.
- 
- The loan casefile was underwritten through DU and received an Approve/Eligible recommendation.

If any one of the above conditions was not met, or the interest rate or loan amount was modified subsequent to the last DU submission in excess of the DU resubmission tolerances, or another eligible loan term was modified subsequent to the last DU submission, the lender must

- obtain updated income, employment, and credit report documents no more than four months prior to conversion; and
- re-qualify the borrower(s) in accordance with the *Requalification Requirements* below.

Updated asset documentation is not required at the time of conversion to permanent financing (regardless of the age of asset documents) unless upon requalification, either of the following applies:

- more reserves are required than were required at the time of original qualification
  - the full amount of reserves must then be reverified, or
- the borrower chooses to bring additional funds to the transaction
  - the additional funds must come from an eligible source and be documented.

### Impact on Validation through the DU Validation Service

If updated credit documents are required to be obtained after the original closing of the construction loan, any validation of income, employment, or assets is no longer applicable. Updated validation reports must be obtained, and the loan casefile resubmitted to DU, and the loan must convert to permanent financing by the Close By Date stated in the DU validation message in order for validation and the associated waiver of enforcement relief of representations and warranties to apply.

See *Selling Guide* B1-1-03, Allowable Age of Credit Documents and Federal Income Tax Returns for additional information.

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## Age of Appraisal Documents

For all single-closing transactions, the effective date of the appraisal report must be no more than four months prior to the note date (that is, the closing date of the construction loan). At the time of completion of construction, a *Restricted Appraisal Update Report* and *Completion Report* must be completed. If the appraiser indicates on the *Restricted Appraisal Update Report* that the property value has declined, then the lender must obtain a new appraisal for the property and requalify the borrower using the updated LTV ratio per the *Requalification Requirements* below.

See SB4-1.2-04, Age of Appraisal and Restricted Appraisal Update Report Requirements for additional information.

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## Requalification Requirements

Requalification of the borrower(s) is required at the time of conversion to permanent financing if

- the LTV ratio increased due to a decline in property value,
- updated credit documents were obtained, or
- as otherwise required per the modified loan term in the table above.

To be eligible for purchase by Fannie Mae, the loan must retain an Approve/Eligible recommendation after resubmission to DU (or, be eligible per the *Eligibility Matrix* if manually underwritten).

When requalification is required

- the LTV ratio must be adjusted based on the new appraisal;
- if credit documents exceed the four (or 18) month age of documentation requirement, the updated income, credit, and liability information must be considered; and
- the loan data at delivery must match the data considered in the final requalification of the loan.

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### Loan Conversion Documentation Options

The construction loan may be converted into a permanent loan in either of the following ways:

- Option 1: A construction loan rider must be used to modify Fannie Mae's uniform instrument that will be used for the permanent loan. The rider must state the construction loan terms, and the construction-related provisions of the rider must become null and void at the end of the construction period and before the permanent loan is sold to Fannie Mae. Because the permanent loan cannot be sold before it is scheduled to begin amortizing, the lender will need to amend the construction loan rider, and the accompanying uniform instrument, if the construction is completed sooner or later than originally anticipated. The amendment(s) should provide the new dates on which amortization for the permanent loan will begin and end. The lender also will need to record the amended documents before the permanent loan is sold.
- Option 2: A separate modification agreement must be used to convert the construction loan into permanent financing. This agreement must be executed and recorded in the applicable jurisdiction before the permanent loan is sold to Fannie Mae.

The lender must include the applicable conversion document in its loan submission package. When amended documents are recorded in connection with a construction loan rider, the lender also must include a copy of the original documentation that the borrower signed.

# SB5-3.2-01, HomeStyle Renovation Mortgages (12/10/2025)

## Introduction

This topic contains information on HomeStyle Renovation mortgages, including:


- Overview
- Allowable Improvements
- Lender Eligibility
- Lender Responsibilities
- Delivery and Recourse Requirements
- Removal of Recourse


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## Overview

The HomeStyle Renovation mortgage enables a borrower to purchase a property or refinance an existing loan and include funds in the loan amount to cover the costs of repairs, remodeling, renovations, or energy efficient and green features to the property. The loan may be delivered to Fannie Mae prior to completion of the renovation, subject to limited recourse as described below.

**Note**: For loan casefiles underwritten through DU, DU will determine that the transaction is a HomeStyle Renovation loan if the Renovation indicator in Property and Loan Information (L1) is selected and there is an amount entered in Line B (L4) of the online loan application.

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## Allowable Improvements

There are no required improvements or restrictions on the types of renovations allowed, nor is there a minimum dollar amount for renovations.

Generally, improvements should be permanently affixed to the real property (either dwelling or land), with the exception of certain appliances installed with kitchen and utility room remodels. The borrower may use HomeStyle Renovation to purchase appliances as part of an overall remodeling project that includes substantial changes or upgrades to the rooms in which the appliances are placed.

HomeStyle Renovation may be used to complete the final work on a newly built home when the home is at least 90% complete. The remaining improvements must be related to completing non-structural items the original builder was unable to finish. Such work may include installation of buyer-selected items such as flooring, cabinets, kitchen appliances, fixtures, and trim.

HomeStyle Renovation may be used to construct various outdoor buildings and structures when allowed by local zoning regulations. These buildings or structures must be in compliance with any applicable building codes for the local area. Examples of acceptable structures include, but are not limited to, accessory dwelling units (ADU), garages, recreation rooms, and swimming pools. See *Accessory Dwelling Units* in SB2-3-04, Special Property Eligibility Considerations for additional information about eligible ADUs.

HomeStyle Renovation may not be used for complete tear-down and reconstruction of the dwelling.

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## Lender Eligibility

HomeStyle Renovation loans have specific product requirements and guidelines for which lenders must ensure detailed compliance. Lenders must obtain special approval to deliver these types of loans to Fannie Mae prior to completion of the


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renovation work. See *Selling Guide* A2-1-01, Contractual Obligations for Sellers/Servicers for additional information. If a lender delivers HomeStyle Renovation loans to Fannie Mae after all renovation work is complete, no special approval is required.

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### Lender Responsibilities

Renovation work must be completed no later than 15 months from the date the loan is closed. In the rare circumstance a renovation project exceeds 15 months, the lender must submit this information to Loan Quality Connect to describe the circumstances resulting in the delay and determine potential remedies.

These options may include

- a limited extension of the timeframe (not to exceed 18 months from the date the loan was closed),
- curtailment of the work to be completed,
- repurchase of the loan, or
- other remedies applicable to the specific circumstance.

Fannie Mae has sole discretion in determining which remedy is acceptable when renovation timeframe exceeds 15 months.

Lenders may not transfer servicing on HomeStyle Renovation loans during the renovation period.
The lender is responsible for monitoring completion of the renovation work and must exercise all approval and oversight responsibilities that are customary and required to comply with specific state laws and to ensure that clear title to the property is maintained.

Lenders may use vendors to manage the operational, escrow, and completion requirements for HomeStyle Renovation loans; but when a vendor is used, the lender is responsible for adequate vendor oversight to ensure all requirements are met.

If any action the lender takes or fails to take in overseeing the renovation work affects Fannie Mae's ability to acquire clear title to the property, the lender may be required to repurchase the loan.

The lender must maintain a copy of all documentation that supports the renovation work, including plans and specifications, "as completed" appraisal, renovation contract, renovation loan agreement, Completion Report, title insurance endorsements or updates, and any other related documentation in the loan file. For more information about the specialized legal documentation Fannie Mae requires for a HomeStyle Renovation loan, see *Selling Guide* Subpart B8, Closing: Legal Documents.

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### Delivery and Recourse Requirements

A lender may deliver a HomeStyle Renovation loan as soon as it is closed; the renovation does not need to have been completed when the loan is delivered as long as the lender delivers that loan with recourse. If the borrower defaults under the terms of the loan before the work is completed, and that default continues for at least 120 days, the lender may be required to repurchase the loan. One of the following SFCs is required when the loan is delivered.

| If the HomeStyle Renovation mortgage is delivered… | Then… | And the lender must deliver… |
|---|---|---|
| • when the renovation is not complete | • the loan is delivered with recourse | • SFC 215 |
| • when the renovation is complete | • no recourse obligation applies | • SFC 279 |

### Removal of Recourse

For loans delivered with recourse, the lender may request the recourse obligation be removed when the renovation is complete. The following criteria will be applicable to the removal of recourse:

- Recourse will not be removed if the loan is delinquent when the lender requests removal.
- If the borrower was 1 x 30 days delinquent at any point during the renovation work, but is current when removal is requested, the recourse may be removed.
- If the borrower had more than one 30 day delinquency or was ever 60 - 90 days delinquent, the lender may request recourse removal after the borrower has made 36 payments with no delinquencies.

To request removal of recourse, the lender must submit a *Restricted Appraisal Update Report and/or* Completion Report to Loan Quality Connect. Submissions must meet the following requirements:

- The Fannie Mae loan number(s) must be identified in the request and attached documents must have the loan numbers in the title.
- Documents must be clear and complete. For example, photos must be provided as exhibits to verify completed renovations with all submissions.

See SB5-3.2-05, HomeStyle Renovation Mortgages: Completion Report, for additional information.

HomeStyle Renovation mortgages are eligible for enforcement relief of underwriting and eligibility representations and warranties as described in *Selling Guide* A2-3.2-02, Enforcement Relief for Breaches of Certain Representations and Warranties Related to Underwriting and Eligibility. To be eligible for relief, the renovation must be complete and recourse removed.

# SB5-3.2-05, HomeStyle Renovation Mortgages: Completion Report (08/05/2026)

### Introduction

This topic contains information on the HomeStyle Renovation mortgage including:

- Completion Report
- Title and Insurance Updates

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### Completion Report

Following completion of the renovation work, the lender must obtain a Completion Report stating the renovation was completed in accordance with the submitted plans and specifications. The Completion Report must confirm all "subject to" items listed on the appraisal report were completed. If deviations have been made to the initial plans, the appraiser must note any changes in the Completion Report Commentary. If the value has been impacted, the lender must follow the policy in *Unplanned Changes in Scope or Incomplete Work* in *Selling Guide* B5-3.2-03, HomeStyle Renovation Mortgages: Collateral Considerations. The lender must also obtain a certificate of occupancy upon completion of renovation if it is required by local authorities for the type of renovation work that was completed.

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### Title and Insurance Updates

Concurrent with the last disbursement of funds, the lender must obtain a title update through the date the renovation was completed to ensure the continuance of Fannie Mae's first lien priority and the absence of any mechanic's or materialmen's liens. When the property is located in a state in which contractor's, subcontractor's, or materialmen's liens have priority over mortgage liens, the lender must obtain all necessary lien releases or take any other action that may be required to ensure title to the property is clear of all liens and encumbrances.

The lender also must obtain updated evidence of insurance following completion of the renovation to confirm that the insurance coverage complies with Fannie Mae's property and flood insurance requirements, as applicable, based on the property as completed. See *Chapter B7-3, Property and Flood Insurance* for Fannie Mae's applicable insurance coverage requirements.


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# SB5-3.3-01, HomeStyle Refresh for Improvements on Existing Properties (08/05/2026)

## Introduction

This topic contains information concerning mortgage loans on existing properties where renovation improvements are part of the transaction, including:


- Overview
- Product Eligibility
- Eligible Property and Occupancy Types
- Eligible Improvements
- Calculating LTV and Maximum Renovation Amount
- Lender Responsibilities
- Appraisal Requirements
- Title and Insurance Updates
- Special Feature Code
- Manual Underwriting
- Uniform Appraisal Dataset (UAD) 3.6 Policy


## Overview

HomeStyle Refresh provides borrowers with a financing option for smaller-scale home improvements, including

- energy- or water- efficiency upgrades,
- environmental remediation,
- disaster preparedness or resiliency improvement, or
- repairs needed due to a natural or environmental disaster of an existing property.

A lender does not need special approval to deliver HomeStyle Refresh loans to Fannie Mae. These loans are delivered with recourse, which may be removed once the lender provides proof of completion, and the loan remains current.

A lender may deliver a HomeStyle Refresh loan with eligible improvements as soon as the loan is closed. The eligible improvements do not have to be completed when the mortgage is delivered to Fannie Mae.

## Product Eligibility

Improvements are permitted on existing properties in conjunction with all standard Guide products and features including, but not limited to:

- high-balance loans,
- Community Seconds,
- loans with deed restrictions (including programs that allow below market rate mortgages),
- down payment assistance programs,
- HomeReady loans, and
- Community Land Trusts.

HomeStyle Refresh loans  are subject to the applicable LTV, CLTV, and HCLTV ratios for purchase and limited cash-out

refinance transactions found in the Eligibility Matrix . Improvements cannot be financed in the loan amount of a high LTV refinance loan.

**Note:** Improvements are permitted on a cash-out refinance, however the transaction is not considered a HomeStyle Refresh loan. All standard cash-out refinance policies apply.

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### Eligible Property and Occupancy Types

All one- to four-unit existing properties are eligible for HomeStyle Refresh. All property types are eligible. Manufactured homes are eligible provided the improvements do not include structural changes.

All occupancy types are permitted.

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### Eligible Improvements

The HomeStyle Refresh program may be used to make improvements and renovations to an existing property, such as:

- kitchen or bathroom updates;
- construction of outdoor buildings and structures when allowed by local zoning regulations, for example swimming pools, decking, screening and porch, and patio additions;
- adding or renovating an accessory dwelling unit;
- improvements or repairs related to disaster damage or improvements to protect the property from future disaster, such as
    - storm- surge barriers,
    - foundation retrofitting for earthquakes,
    - hazardous brush and tree removal in fire zones, or
    - retaining walls to address mud or water flows.
- environmental hazard damage repairs or resiliency improvements, including asbestos, lead, mold, and radon; or
- energy- or water-efficiency improvements.

### Change Requests

Before approving any change request a borrower wants to make to the original plans and specifications, the lender must require the borrower to submit a *HomeStyle Change Order Request* (Form 1200), or a substantially similar document, that provides a detailed description of the

- change(s),
- cost of the change(s), and
- estimated completion date(s).

### Calculating LTV and Maximum Renovation Amount

**Purchase Transactions:** In a purchase transaction, the proceeds can be used to finance the acquisition of the property and the cost of the improvements or the amount to payoff PACE debt. The LTV ratio is determined by dividing the original loan amount by the lesser of

- the “as completed” appraised value of the property
- the sum of the purchase price of the property plus the cost of the improvements, or
- the sum of the purchase price plus the total amount of PACE debt to be paid off.

**Limited Cash-out Refinance Transactions:** When a loan is originated as a limited cash-out refinance, the loan must meet all of the standard requirements for limited cash-out refinances (as described in B2-1.3-02, Limited Cash-Out Refinance Transactions).

Proceeds may also be used to pay off an existing PACE loan or other debt (secured or unsecured) that financed energy- related improvements. The standard cash back allowance of the greater of 1% of the loan amount or $2,000 is permitted on these loans.

For limited cash-out refinance transactions, the LTV ratio is determined by dividing the original loan amount by the "as completed" appraised value of the property when the mortgage is being delivered prior to the completion of the improvements. If the appraisal was completed after the completion of the improvements, then the LTV ratio is determined by dividing the original loan amount by the appraised value of the property.

There is no minimum dollar amount for the improvements; the maximum dollar amount depends on the type of HomeStyle Refresh activity and the transaction, described in the table below.

| HomeStyle Refresh Activity | Maximum Amount to Finance Improvements |
|---|---|
| Renovation of an existing property | For purchases or limited cash-out refinances up to 15% of the "as completed" appraised value of the property. |
| Payoff of non-PACE secured or unsecured debt that financed energy-related improvements | For limited cash-out refinances up to 15% of the appraised value of the property. The improvement debt must be paid off in full. Partial payoffs are not permitted.<br><br>**Note:** If a HomeStyle Refresh loan includes both new energy-related improvements and payoff of previously acquired energy-related debt, the total of both cannot exceed 15%. |
| Payoff of existing PACE loan | For purchases or limited cash-out refinances: all outstanding PACE debt may be paid off up to the maximum allowable LTV for the transaction and occupancy type. The PACE loan must be paid off in full. Partial payoffs are not permitted. |

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### Lender Responsibilities

The lender is responsible for

- ensuring that the appraiser has been provided with a copy of all plans and specifications proposed for the renovation project,
- managing the completion escrow account in which improvement funds are held, and
- monitoring the completion of the HomeStyle Refresh improvement work.

The lender must establish a completion escrow for incomplete improvements. The improvements must be completed no later than 180 days from the date of the mortgage note. For requirements related to the completion of the postponed improvements, including escrow accounts, disposition of funds after work completion, and title reports, see the applicable table in B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements.

In the event a renovation project exceeds 180 days, the lender must submit this information to Loan Quality Connect to describe the circumstances resulting in the delay and determine potential remedies. Recourse shall remain until proof of completion has been provided. If a loan experiences a serious delinquency (120+ days) while under recourse, the loan will be subject to repurchase.

The lender may fund up to 50% of the total planned renovation costs at closing with an initial draw. A portion of the initial draw may be used to pay for permits, architect fees, and design or planning expenses that were incurred during the initial part of the project.

The lender must maintain a copy of all documentation in the individual loan file that supports the improvement work, such as the, "as completed" appraisal, home improvement contract, certification of completion, and title insurance endorsements or updates (if applicable).

**Note:** Lenders may not transfer servicing on HomeStyle Refresh loans during the renovation period.

### Appraisal Requirements

All HomeStyle Refresh loans require an appraisal based on an interior and exterior property inspection and must be completed on the *Uniform Residential Appraisal Report* (URAR). When the loan is being delivered prior to the completion of the improvements, appraisers must determine the "as completed" value of the property subject to the improvements being completed.

The lender must obtain a *Completion Report* confirming that all items identified as "subject to" completion, based on the plans, were completed. Any significant deviations that impact the appraised value constitute a new assignment and must be reported on a URAR. A copy of the *Completion Report* must be submitted to the Uniform Collateral Data Portal and to Loan Quality Connect to initiate recourse removal.

### Title and Insurance Updates

The lender must obtain a title update with the renovation completion date before issuing the final funds to ensure that Fannie Mae's first lien priority remains in place and confirms that no mechanic's or materialmen's liens exist.

When the property is located in a state in which contractors', subcontractors', or materialmen's liens have priority over mortgage liens, the lender must obtain all necessary lien releases or take any other action that may be required to ensure title to the property is clear of all liens and encumbrances.

The lender also must obtain updated evidence of insurance following completion of the renovation to confirm that the insurance coverage complies with Fannie Mae's property and flood insurance requirements, as applicable, based on the property as completed. See *Chapter B7-3, Property and Flood Insurance* for Fannie Mae's applicable insurance coverage requirement.

### Special Feature Codes

The lender must report Special Feature Code 892 when delivering a loan that meets the HomeStyle Refresh requirements.

### Manual Underwriting

For loans involving improvements that are underwritten manually, a maximum debt-to-income ratio of 45% is allowed if the transaction satisfies all criteria in the Eligibility Matrix for a 45% DTI ratio on a manually underwritten loan.

All other underwriting requirements, such as the down payment, credit score, and reserve requirements, are identical to those for a similar transaction with a maximum DTI ratio of 36%.

# SB5-4.1-03, Texas Section 50(a)(6) Loan Underwriting, Collateral, and Closing Considerations (03/04/2026)

## Introduction

This topic contains information on Texas Section 50(a)(6) loan underwriting, collateral, and closing considerations, including:


- LTV/CLTV Ratios
- Underwriting
- Property Valuation and Survey
- Loan Documentation
- Title Insurance


## LTV/CLTV Ratios

Per Texas law, the maximum allowable LTV and combined LTV for any Texas Section 50(a)(6) loan is 80%, notwithstanding any conflicting provisions of this Guide or any specific DU recommendation or finding. HELOC subordinate financing is not permitted, hence a maximum HCLTV ratio is not applicable.

## Underwriting

Texas Section 50(a)(6) loans are eligible for the reduced documentation requirements recommended by DU, provided that all other terms and conditions described herein for Texas Section 50(a)(6) loans shall apply.

For a Texas Section 50(a)(6) loan that represents the refinance of a prior Texas Section 50(a)(6) loan, the borrower must requalify even if the lender is currently servicing the existing loan that is being refinanced.

Manually underwritten Texas Section 50(a)(6) loans are subject to minimum credit score requirements per the *Selling Guide*, based on the transaction as either a cash-out refinance or a limited cash-out refinance, as applicable.

## Property Valuation and Survey

Lenders must obtain a new appraisal to determine the property's current value even if DU offers value acceptance, or a value acceptance + property data option. If the appraisal is deemed deficient, see *Addressing Appraisal Deficiencies* in SB4-1.3-12, Appraisal Quality Matters. The appraisal (together with any applicable desk review or field review) must be attached to the written acknowledgment of “fair market value”.

**Note:** When a desk review or field review is requested by the lender in connection with a Texas Section 50(a)(6) loan, it must be obtained prior to the date of the note and mortgage.

The appraisal for the property and the acknowledgment of fair market value must not include any property other than the homestead.

The survey (or other acceptable evidence) must demonstrate that:

- the homestead property and any adjacent land are separate parcels, and
- the homestead property is a separately platted and subdivided lot for which full ingress and egress is available.

The lender selling the loan to Fannie Mae must not have any interest (such as an option to purchase, a security interest, or an easement) in any parcel adjacent to the homestead property that is owned by the borrower, if such interest could constitute additional security for the Texas Section 50(a)(6) loan.

## Loan Documentation

There is a special security instrument, notes, and riders that must be used in connection with Texas Section 50(a)(6) loans and a special affidavit that must be prepared and recorded in connection with each Texas Section 50(a)(6) loan transaction. Lenders must use the following documents:

- Texas Home Equity Security Instrument (First Lien) (Form 3044.1)

- the specific Texas Section 50(a)(6) loan notes and riders, and
- Texas Home Equity Affidavit and Agreement (First Lien) (Form 3185)

Because of the complexities involved in closing Texas Section 50(a)(6) loans, lenders must provide the title company with a detailed closing instruction letter and require an acknowledgment of its receipt.

The closing instructions must require the title company to conduct its closings properly to ensure compliance with Texas Constitution Section 50(a)(6). To assist in this endeavor, the Texas Home Equity Affidavit and Agreement First Lien (Form 3185) must be prepared and recorded in connection with each Texas Section 50(a)(6) loan transaction.

Fannie Mae suggests that a lender also require each borrower to sign a closing receipt that itemizes the documents that they received at closing.

For additional Texas Section 50(a)(6) loan documentation (also called "Texas Home Equity" documentation) refer to Standard Texas Home Equity Notes (under Standard Instruments).

**Note:** Texas Section 50(a)(6) loans are not eligible for delivery as eMortgages.

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### Title Insurance

For all Texas Section 50(a)(6) loans, a title insurance policy written on Texas Land Title Association forms (standard or short form), supplemented by an Equity Loan Mortgage Endorsement (Form T-42) and a Supplemental Coverage Equity Loan Mortgage Endorsement (Form T-42.1), is required.

**Note:** There may be no exceptions or deletions to the coverage provided by Paragraphs 2(a) through (e) (other than an exception or deletion relating to the exclusion of agricultural homestead property) of the T-42 endorsement. The endorsement must include the optional coverage provided by Paragraph 2(f), as well as the additional coverage provided by Endorsement T-42.1.

The title insurance policy cannot include language that:

- excludes coverage for a title defect that arises because financed origination expenses are held not to be "reasonable costs necessary to refinance", or
- defines the "reasonable costs necessary to refinance" requirement as a "consumer credit protection" law since the standard title policy excludes coverage when lien validity is questioned due to a failure to comply with consumer credit protection laws.

# SB5-4.2-01, Native American Conventional Lending Initiative (NACLI) (09/02/2026)

### Introduction

This topic contains information on Native American Conventional Lending Initiative (NACLI), including:


- Overview
- Lender Eligibility
- Tribe Eligibility
- Eligible Native American Lands
- Borrower Eligibility
- Eligible Transactions
- Property Eligibility
- Appraisal Requirements
- Loan and Legal Documentation Requirements
- Special Feature Codes


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### Overview

As part of Fannie Mae's commitment to addressing the housing needs of underserved communities, Fannie Mae developed the Native American Conventional Lending Initiative (NACLI).

Through NACLI, Fannie Mae purchases eligible conventional mortgage loans secured by properties located within the jurisdiction of an eligible tribe.

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### Lender Eligibility

Special lender approval is not required.

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### Tribe Eligibility

An eligible tribe is any federally recognized Indian tribe that appears on the most current list published by the Secretary of the Interior pursuant to 25 U.S.C. § 5131 and satisfies one of the following:

- is identified on HUD's website as approved to participate in the Section 184 Indian Home Loan Guarantee Program, or
- is identified on Fannie Mae's website as having entered into a Memorandum of Understanding (MOU) with Fannie Mae.

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### Eligible Native American Lands

The property must be located within the jurisdiction of an eligible tribe.

Title to the land, or an interest in land, must be:

- held by the United States in trust for an eligible tribe or individual member(s) of an eligible tribe (referred to as "**trust land**"), or

- held by an eligible tribe or individual member(s) of an eligible tribe and subject to Federal restrictions against alienation or encumbrance (referred to as "**restricted fee land"**).

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### Borrower Eligibility

At least one of the borrowers must be an enrolled member of an eligible tribe.

Fannie Mae does not require the borrower to be a member of the tribe having jurisdiction over the property.

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### Eligible Transactions

Purchase and limited cash-out refinance only.

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### Property Eligibility

The following principal residence properties are eligible:

- one-unit including those with an accessory dwelling unit (ADU);
- single-section and multi-section manufactured homes with one ADU;
- two- to four-unit (including manufactured homes);
- condominiums

For additional information on manufactured home eligibility, see SB2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing and SB5-2-03, Manufactured Housing Underwriting Requirements.

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### Appraisal Requirements

Lenders must obtain a traditional appraisal. See SB4-1.2-01, Appraisal Reports and Exhibits for additional information. For properties with leasehold interests, see SB4-1.4-05, Leasehold Interests Appraisal Requirements.

The appraisal must include the sales comparison approach when sufficient market data is available to develop a reliable opinion of value. If sufficient market data is not available, the appraiser may develop the opinion of value using only the cost approach. The appraisal report must explain why sufficient market data was not available and describe the research performed to identify comparable market data.

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### Loan and Legal Documentation Requirements

The following table provides additional information regarding legal documentation requirements.

| Document | Requirements |
|---|---|
| **Lease Requirements** | If the mortgage loan will be secured by a leasehold interest, the transaction must be evidenced by a form of residential lease established by the eligible tribe (or its Tribally Designated Housing Entity (TDHE), as defined in 25 U.S.C. §4103(22)) and acceptable to Fannie Mae.<br><br>For each transaction, the lease must be: |

| Document | Requirements |
|---|---|
| | • approved by the Bureau of Indian Affairs (BIA), or<br>• executed under tribal residential leasing regulations approved by BIA pursuant to the HEARTH Act of 2012, 25 U.S.C. § 415.<br><br>Lenders must maintain a copy of the fully executed lease and BIA's approval of the lease, if required, in the loan file. |
| **Loan Documents** | Lenders must use the Fannie Mae/Freddie Mac Uniform Instruments.<br><br>Lenders must also use the following applicable supplemental documents posted on Fannie Mae's website:<br>• Fannie Mae Native American Housing Addendum to Fixed- Rate Note (Form 4802)<br>• Fannie Mae Native American Housing Security Instrument Rider for Leaseholds (Form 4805)<br>• Fannie Mae Native American Housing Rider to Residential Lease (Form 4803-2)<br><br>Any modifications to these documents must be made by the lender in consultation with the tribe and approved by Fannie Mae in writing. |
| **Title Status Report (TSR) and Title Insurance Waiver** | Lenders must obtain and maintain in the loan file a certified title status report (**"TSR"**) from the appropriate BIA Land Titles and Records Office (**"LTRO"**) showing Fannie Mae's first lien position with no unacceptable title impediments.<br><br>**Note:** A title insurance policy is permitted, but is not required except for restricted land. |
| **Recording Requirements** | The legal documents must be recorded in the appropriate LTRO.<br><br>The lender must also record the legal documents in any tribal, state, or local recording office when required by the applicable tribal leasing regulations or other applicable law. |

## Special Feature Codes

When delivering NACLI loans to Fannie Mae, lenders must report

- SFC 221 (NACLI loans);
- SFC 586 for appraisals using only the cost approach; and
- all other SFCs that may apply.

# SB5-4.2-02, Disaster-Related Limited Cash-Out Refinance Flexibilities (10/08/2025)

## Introduction

This topic contains information on disaster-related limited cash-out refinance flexibilities, including:


- Disaster-Related Limited Cash-Out Refinance Flexibilities Overview
- Location of Property
- Occupancy Status
- Transaction Types
- Documentation of Eligible Disaster-Related Expenses and Financing
- Limited Cash-Out Refinance DU Requirements
- Appraisal Requirements
- Delivery
- Special Feature Codes


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## Disaster-Related Limited Cash-Out Refinance Flexibilities Overview

Fannie Mae provides flexibilities to standard limited cash-out refinance policies for borrowers who have been impacted by a natural disaster. These guidelines:

- permit the refinance of non-purchase money subordinate loans obtained to finance disaster-related property repairs, and
- provide for a higher cash-out amount to reimburse borrowers for documented out-of-pocket expenses related to disaster-related property repairs.

This topic outlines the specific eligibility requirements for these additional flexibilities.

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## Location of Property

These flexibilities may be applied to loans on properties located in any counties, cities, or parishes that are designated by the Federal Emergency Management Agency (FEMA) as eligible for individual assistance as a result of a natural disaster (these areas are referred to as “FEMA-Declared Disaster Areas”).

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## Occupancy Status

These guidelines are applicable only to loans secured by the borrower’s principal residence and may not be used in connection with second homes or investment properties.

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## Transaction Types

A borrower may obtain:

- a limited cash-out refinance to consolidate non-purchase money subordinate financing used for repair of disaster-related property damage to their principal residence. To be eligible, the subordinate financing, including any draws on an existing HELOC, must post-date the disaster. However, the borrower may pay off the entire HELOC through the limited cash-out refinance, provided that a portion of the amount was used for disaster-related expenses to repair property damage to the principal residence.


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- cash-out for reimbursement of documented out-of-pocket expenses for the completed repair of disaster-related property damage to their principal residence in an amount not to exceed the lesser of 10% of the balance of the new refinance loan or $15,000.

All existing guidelines and requirements for limited cash-out refinance transactions listed in this section continue to apply, including those for Texas Section 50(a)(6) loans (see *Selling Guide* B5-4.1-01, Texas Section 50(a)(6) Loans).

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### Documentation of Eligible Disaster-Related Expenses and Financing

The lender must document that the subordinate financing (or a portion of the HELOC) or the entire requested cash-out amount represents funds used for completed disaster-related property repairs.

Generally, documentation includes copies of receipts, work orders, canceled checks, etc., related to the cost of materials and labor.

The borrower may not receive any reimbursement for amounts representing their sweat equity in connection with the repairs.

**Note**: All documentation must post-date the disaster and be directly related to completed repairs of damage to the property resulting from the disaster.

### Limited Cash-Out Refinance DU Requirements

Certain messages on the DU Underwriting Findings Report will not apply to loans originated under the disaster-related limited cash-out refinance requirements.

When the loan complies with the requirements of this section, lenders may disregard the following messages:

- This case is ineligible because the amount of cash taken out of the subject property equity exceeds the limit of the greater of 1% of the loan amount or $2,000 for limited cash-out refinances.
- If any subordinate lien that was not used to acquire the subject property is to be paid off with first mortgage proceeds, the loan is ineligible as a limited cash-out refinance. The loan must be resubmitted as a cash-out refinance.
- If subordinate liens are being paid off with the first mortgage proceeds, obtain written documentation that the subordinate lien was used to acquire the subject property.

Fannie Mae will grant the lender the limited waiver of underwriting representations and warranties for these loans, including those mortgages that receive an Approve/Ineligible recommendation, provided the loan meets the requirements contained in this section as well as those contained in *Selling Guide* A2-2-04, Limited Waiver and Enforcement Relief of Representations and Warranties.

### Appraisal Requirements

The appraisal for the property must follow standard requirements contained in *Selling Guide* Chapter B4–1, Property Assessment and Valuation.

Those guidelines allow an appraisal to be based on the “as is” condition of the property provided there are no conditions that affect the soundness or structural integrity of the property. If those conditions do exist, the property must be appraised subject to completion of the specific repairs and a Completion Report must be obtained prior to sale of the loan to Fannie Mae.

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### Delivery

Loans originated in accordance with this section must be delivered to Fannie Mae no later than two years from the date of the disaster declaration by FEMA.

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### Special Feature Codes

Loans delivered under these guidelines must include SFC 416 as part of the delivery data.

# SB5-7-03, High LTV Refinance Alternative Qualification Path (06/04/2025)

## Introduction

This topic contains information about using the Alternative Qualification Path for the high LTV refinance option, including:

- Eligibility Requirements
- Documentation Requirements

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## Eligibility Requirements

The following table provides criteria for using the Alternative Qualification Path.

| If any of the following apply to the new loan… | Then the loan… |
|---|---|
| the P&I payment increases by more than 20% from the current P&I payment | must comply with the Alternative Qualification Path requirements. |
| a borrower on the loan being refinanced is being excluded from the new loan other than due to death, and the remaining borrower(s) cannot provide evidence of making payments on their own for the prior 12 months | |
| the loan is a higher-priced mortgage loan or a higher-priced covered transaction under Regulation Z | |

In addition to all other requirements associated with the high LTV refinance option loans, loans originated in accordance with the Alternative Qualification Path must also meet the requirements described in the following table.

| ✓ | Additional requirements for high LTV refinance loans originated using Alternative Qualification Paths |
|---|---|
| | Minimum credit score of 620. |
| | Maximum DTI ratio of 45%. |
| | Verified assets needed to close, when applicable. |
| | The lender is required to manually underwrite all loans subject to the Alternative Qualification Path. |

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## Documentation Requirements

In addition to the eligibility considerations described in this topic, the documentation requirements in the following table apply.

| Income Type and Eligible Income Sources | Documentation Requirements |
|---|---|
| **All Employment Income** | Verbal verification of employment (See *Selling Guide* B3-3.1-04, Verbal Verification of Employment, for additional requirements.)<br>**Note:** Each borrower must complete and sign a separate IRS Form 4506-C at or before closing. |
| **Base Pay (salary or hourly)**<br>**Tip, Bonus, and Overtime Income** | One paystub or a completed *Request for Verification of Employment* (Form 1005).<br>Applies to primary employment, secondary employment (second job and multiple jobs), and seasonal income. |
| **Commission Income** | One paystub or Form 1005 or one year personal tax return. |

| | |
|---|---|
| **Military Income** | A military Leave and Earnings Statement or a verification of employment. |
| **Self-Employment** | One year personal tax return.<br>Applies to primary and secondary self-employment. |
| **Alimony, Child Support, or Separate Maintenance** | Copy of divorce decree, separation agreement, court order or equivalent documentation, and one month documentation of receipt. |
| **Employment-Related Assets as Qualifying Income** | Lender must obtain standard documentation for this type of income as described in the applicable *Selling Guide* topic. |
| **Rental Income** | Lease or one year personal tax return (Rental Information section of the Uniform Residential Appraisal Report (URAR) and *Single-Family Comparable Rent Schedule* Form 1007 are not required). Applies to rental income from subject property or from other properties owned by the borrower. |
| **Retirement and Pension** | One of the following:<br>• award letter,<br>• one year personal tax return,<br>• W-2 or 1099 form, or<br>one month bank statement reflecting direct deposit. |
| **Social Security** | One of the following:<br>• award letter,<br>• one year personal tax return,<br>• Form SSA-1099, or<br>one month bank statement reflecting direct deposit. |
| **Temporary Leave Income** | Lender must receive:<br>• the borrower's written confirmation of their intent to return to work, and<br>• no evidence or information from the borrower's employer indicating that the borrower does not have the right to return to work after the leave period.<br>Regardless of the date of return, the amount of the "regular employment income" the borrower received prior to the temporary leave must be used to qualify. |
| **All Other Income Types**<br>• Automobile Allowance<br>• Boarder Income<br>• Capital Gains Income<br>• Disability Income - Long-Term<br>• Employment Offers or Contracts | Lender must determine appropriate documentation.<br>Examples include (but are not limited to):<br>• an award letter or equivalent documentation or agreement,<br>• one paystub or equivalent documentation,<br>• one year personal tax return,<br>• IRS 1099 Form, or |

| | |
|---|---|
| • Foreign Income<br>• Foster-Care Income<br>• Housing or Parsonage Allowance<br>• Interest and Dividends Income<br>• Mortgage Credit Certificates<br>• Mortgage Differential Payments Income<br>• Non-Occupant Borrower Income<br>• Notes Receivable Income<br>• Public Assistance Income<br>• Royalty Payment Income<br>• Schedule K-1 Income<br>• Trust Income<br>• VA Benefits Income | one month bank statement reflecting direct deposit. |
| **Asset Type**<br>• Checking Accounts<br>• Savings Accounts<br>• Certificates of Deposit<br>• Money Mark Accounts<br>• Stocks, Bonds, Mutual Funds<br>• Retirement Accounts<br>• Trust Accounts<br>• Secured Borrowed Funds<br>• Grants (Hardest Hit Fund)<br>• Gifts | One recent statement (monthly, quarterly, or annual) showing asset balance. |

# SB8-2-02, Special-Purpose Security Instruments (12/10/2025)

### Introduction

This topic contains general information on special-purpose security instruments, including:


- General Information
- Consolidation New York Mortgages
- Puerto Rico Direct Mortgage Instruments
- Security Instruments for Manufactured Home Mortgages


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### General Information

Fannie Mae sometimes allows special-purpose alternative documents to be used in lieu of (or in addition to) the typical security instruments. These documents can be found on Fannie Mae's Legal Documents website. Authorized changes that must or may be made to those documents are set out in the instructions that accompany each document. These instruments must be supported by the appropriate mortgage riders, rider addenda, mortgage assignments, and, if applicable, other product-specific documentation (see B8-4, Riders and Addenda , and B8-6, Mortgage Assignments ).

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### Consolidated New York Mortgages

The statutory provisions of New York permit refinance mortgages (and sometimes purchase money mortgages) to be documented by a consolidation, extension, and modification agreement (CEMA) that consolidates into one document the terms of prior notes and mortgages related to the security property and, if new funds are advanced, the terms of a new note and mortgage. In such instances, the consolidation must be documented on Fannie Mae’s standard Consolidation, Extension and Modification Agreement (Form 3172), along with any accompanying exhibits Fannie Mae may specify. If new funds are advanced, Fannie Mae’s standard security instrument must be used to document the new mortgage that is being consolidated with the prior mortgages.

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### Puerto Rico Direct Mortgage Instruments

The statutory provisions of Puerto Rico permit a mortgage transaction to be documented by a single instrument that combines the terms of a note and mortgage. This is referred to as a “direct” mortgage. Fannie Mae does not publish standard legal documents for direct mortgages; therefore, lenders must develop (or acquire) appropriate documentation for these mortgages consistent with the applicable Puerto Rico statutes. By delivering a direct mortgage to Fannie Mae, the lender must make the nonstandard document warranties. (See *Selling Guide* A2-2-02, Delivery Information and Delivery-Option  Specific Representations and Warranties.)

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## Security Instruments for Manufactured Home Mortgages

Fannie Mae prefers lenders to use the standard Fannie Mae uniform instruments for manufactured home loans sold to it. Loan documents are not acceptable if they:

- state that the home is personal property or contain other words to that effect;
- state that the parties do not intend to attach the home to a permanent foundation system on the land, or contain statements inconsistent with that intention;
- unless required by law, provide that rights of holders in due course are waived, or with other words provide that an assignee note holder may be held liable for claims the borrower may have against other parties; or
- include consumer finance paper (which combines the note and security instrument in a single document) or a retail installment sales contract.

The property description section of the security instrument must include a comprehensive description of the manufactured home and the land. The description must include the serial or VIN number (or the serial number or VIN for each unit if the home is multi-section), make, model, size, and any other information that may be required by applicable law to definitively identify the home. The serial number is located on the HUD Data Plate located on the interior of the home, usually near the electrical box. In addition, the serial number is generally cold stamped on the frame front cross member of each transportable section.

Some jurisdictions may not allow any information in the property description section of the security instrument other than what is customary for other real property transactions. If this is the case, then an addendum may be used, which must be attached to the security instrument and included in the loan file.

- The security instrument must state that the manufactured home is an improvement to the land and an immovable fixture or must include similar language as may be required by applicable law to assure, to the greatest extent possible, that the manufactured home is treated as real property under applicable state law. If applicable law provides specific obligatory wording, such wording must be used.

- The borrower(s) and any lender with a personal property security interest in the manufactured home must sign an Affidavit of Affixture that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage free of any personal property security interest. It must also contain any specific language that may be required by applicable law.

The Affidavit must be signed by both the lender and the borrower(s), preferably recorded, and must be retained in the loan file.

Failure to include the Affidavit of Affixture in the loan file may result in the loan being ineligible for delivery to Fannie Mae.

If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.


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# SE-3, Acronyms and Glossary of Defined Terms

**Note: The following terms are NOT included in the current *Selling Guide*.**

**E-3-13, Acronyms and Glossary of Defined Terms: M (12/10/2025)**

**multi-section manufactured home**

A manufactured home built in a factory as two or more sections, transported separately to the site, and assembled to create a single structure containing one dwelling or multiple living units. The home is permanently affixed to the land, legally classified as real property, and may include multi-story structures as permitted by HUD Code.

**E-3-16, Acronyms and Glossary of Defined Terms: P (06/04/2025)**

**property data collection**

The act of physically or virtually observing and reporting property characteristics.

**E-3-19, Acronyms and Glossary of Defined Terms: S (12/10/2025)**

**single-section manufactured home**

A manufactured home built as a single section in the factory and transported intact to the site. The home is permanently affixed to the land, legally classified as real property, and may include multi-story designs (provided the structure on which the manufactured home is placed is not another manufactured home).

**E-3-21, Acronyms and Glossary of Defined Terms: U (06/04/2025)**

**Uniform Residential Appraisal Report (URAR):**

A dynamic appraisal report that addresses all residential one- to four-unit property types

**E-3-22, Acronyms and Glossary of Defined Terms: V (06/04/2025)**

**virtual inspection**

A person remotely viewing the property using real-time video streaming technology.


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