



Fannie Mae Updates Its Appraisal Policies In Seller Guide Announcement

On June 30, Fannie Mae sent a letter to its sellers and servicers, containing updates to the company's appraisal policies in several areas. Announcement SEL-2010-09 revealed many incremental changes to the appraisal process, including the selection of appraisers, the requirement of interior photos when an interior inspection is conducted, communication under the Home Valuation Code of Conduct (HVCC) and the proper determination of comparable sales, particularly in the 1004MC.

The changes came, according to the letter, after Fannie Mae's post-purchase reviews of mortgage loan files "identified issues with appraisals." As a result, several changes and clarifications were made to the appraisal process at the mortgage giant, including:

Inclusion of interior photographs in the appraisal report;

- Lender changes to the appraised value and guidance on addressing appraisal deficiencies;
- Appraiser selection criteria;
- Sources of comparable market data;
- Selection of comparable sales;
- Communication under the HVCC;
- Seller concessions;
- Treatment of personal property; and
- Market Conditions Addendum to the Appraisal Report (Form 1004MC).

One of the biggest announcements is Fannie's new position in the selection of appraisers. It said that lenders must ensure that appraisers have the "requisite knowledge" to perform an appraisal for the specific area and property. "The use of an appraiser who has the appropriate knowledge of specific geographical markets, access to the appropriate data sources, and experience in appraising specific property types within those markets will help to ensure that valuations are accurate and that appraisal practices are appropriate."

Although USPAP allows an appraiser who doesn't have that specific skill-set to accept an assignment on the proviso that he or she will be able to access that knowledge, usually by partnering with an appraiser local to that area, Fannie Mae does not want this to occur and so does not allow the USPAP guideline to apply.

Most importantly, lenders are reminded that they are responsible for the appraisal, regardless of hiring a third-party vendor such as an appraisal management company (AMC). "Lenders are ultimately responsible for representations and warranties related to the value, condition and marketability of the subject property; and lenders must hold the AMC responsible for complying with Fannie Mae's requirements," the letter stated.

The Appraisal Institute welcomed the announcement from Fannie Mae, saying it was part of a wider effort within the industry to "promote appraiser independence and help loans get completed." Appraisal Institute Government Relations Committee Chair Richard Maloy said the new requirements may result in lenders rethinking their use of third-party vendors such as appraisal management companies. "The buck now stops at the lender," he said. "Fannie is saying the lender is held responsible for the appraiser's selection even if they were selected by an AMC."

The other important part of the update regards the proper determination of comparable sales. Fannie Mae has updated its section on comparable sales in its selling guide to give guidance to appraisers whose markets are flooded with foreclosures. “If the appraiser believes a foreclosure sale or a short sale is an appropriate comparable, then the appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it,” the guide states. “The appraiser cannot assume it is equal to the subject property.”

However, Fannie is concerned about lenders changing the appraised value of a property. “During Fannie Mae’s post-purchase reviews, cases were identified where the lender had reduced the opinion of market value in the appraisal report based upon underwriter judgment, automated valuation models, or other methodology,” the letter stated. “Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount.”

If the lender does consider an appraisal to be deficient, it has the following options: it can contact the appraiser to address the problems; it can obtain a desk or field review of the original appraisal; or it can order a new appraisal. There are restrictions though — any desk or field review must be completed according to USPAP, and must be performed by an appraiser who is licensed or certified by the state in which the property is located. Any new appraisal must be based on the same level of inspection that was required for the original appraisal.

Regardless of the options, Fannie Mae does not want lenders to take matters into their own hands. “It is not acceptable for the lender to exercise blanket discretion by arbitrarily changing the opinion of market value from a report for use in the lending process,” the guide forcefully states. “For example, it is not within the lender’s discretion to simply average the two opinions of market value in order to arrive at a final value conclusion.”

Among the other changes in the announcement is a requirement that for any appraisal that involved an interior inspection, photographs of the interior must now be included in the report.

At a minimum, these must include the kitchen, all bathrooms, the main living area, any examples of recent updates such as restoration or remodeling, and any examples, if any, of physical deterioration.

The announcement gave guidance on several miscellaneous appraisal-related matters. It reminded lenders and appraisers that communication, while restricted, is still permitted under the HVCC. While the code prohibits the communication between an appraiser or an AMC and anyone in loan production, or who has a financial interest in the closing of a loan, it does not prohibit other employees of the lender or authorized third party from requesting additional information or clarification from the appraiser.

Appraisers are given guidance on completing the 1004MC, Fannie’s flagship form that was introduced last year. On the form, in order to provide the most accurate depiction of the months of housing supply as of the effective date of the appraisal, the total number of Comparable Active Listings must now be based on a specific point in time. For example, when completing the “Current – 3 Months” column of comparable active listings, the number should reflect the listings on the most recent date in the three-month period (which is also the effective date of the appraisal), and not the cumulative number of listings for the entire three-month time period.

Then the number for the total number of Comparable Active Listings is divided by the absorption rate, giving an accurate depiction of the existing housing stock as of the effective date of the appraisal. Otherwise, using a cumulative number of listings during the “Current – 3 Month” time period could result in an artificially high number in the housing supply column. If data is available for the previous time periods, then the total number of Comparable Active Listings should be based on the most recent day in each of those time periods.

Although this guidance should be effective immediately, Fannie Mae understands that some appraisers may need to change their technology, so it is not required until Sept. 1, the date when all of the updates in the announcement will be effective.

Regarding seller concessions, the company warns lenders that excessive concessions can artificially inflate the sales price, so appraisals should “reflect an opinion of market value after any special or creative financing or sales concessions have been made.” Fannie Mae also reminds its sellers and servicers that personal property cannot be added as additional security in a mortgage unless otherwise specified.

Freddie Mac has not made any announcements or similar updates to its policies.

Source: Valuation Review

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