



## **Fannie Mae's Revised Appraisal and Property Report Forms (Forms Dated March 2005 for Appraisals Performed On/After 11/1/05) Frequently Asked Questions**

### **1. Why did Fannie Mae decide to revise the appraisal report forms?**

The primary objectives for the revision of the appraisal report forms were to:

- more clearly communicate Fannie Mae's expectations for the property appraisal and reporting processes;
- help appraisers comply with those expectations;
- clarify appraisers' accountability for the quality of their work to those who rely on it; and
- help appraisers comply with the Uniform Standards of Professional Appraisal Practice.

### **2. What are the major changes to the forms?**

The revised report forms clarify that the Scope of Work for the appraisal is defined by the complexity of the appraisal assignment and the reporting requirements of the appraisal report form, including the stated purpose of the appraisal to provide the Lender/Client with an accurate, and adequately supported, opinion of the market value of the subject property, based on our Definition of Market Value.

We also applied the streamlined approach and reporting formats of the Desktop Underwriter<sup>®</sup> appraisal report forms. The more consistent presentation of the appraiser's research, analysis, and conclusions will help appraisers more clearly present the results of their valuation, and will enhance the lender's review of the appraisal report. The revised format enables the appraiser to report the results of the valuation in a brief but comprehensive manner, which will be more efficient for reviewing and processing than the previous forms. Direct questions have been added to the report forms that require the appraiser to report his or her analysis and conclusions on key areas in a clear and succinct yes/no format. The expanded areas for comments throughout the forms should also help to eliminate the need for additional addenda and attachments.

The appraiser's certification on each of the revised appraisal report forms was expanded to more clearly communicate Fannie Mae's expectations of the property appraisal and reporting process. In addition, new certifications were developed to:

- affirm that the appraiser has the appropriate knowledge and experience to appraise the particular type of property in the market area;
- clarify the permitted disclosure or distribution of the appraisal report;
- acknowledge the parties that often rely on the appraisal report as part of a mortgage finance transaction; and
- acknowledge that any intentional or negligent misrepresentation may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both.

### **3. What is the appraiser's responsibility for reporting property condition?**

The appraiser is responsible for considering all factors that have an impact on value in the development of his or her opinion of market value for the subject property. Fannie Mae requires the appraiser to express an opinion about the condition of the property improvements on our appraisal report forms. The appraiser must report the condition of the improvements in factual, specific terms. We believe that an accurate description of the physical condition of the subject property is a critical element in arriving at a supportable opinion of market value, as well as in the prudent underwriting of a mortgage loan.

### **4. What is expected with regard to the appraiser's inspection of a property?**

Fannie Mae's expectation of the appraiser's property inspection for an appraisal based on an interior and exterior inspection is a complete visual inspection of the accessible areas of the property. The appraiser is responsible for noting in his or her report any adverse conditions (such as, but not limited to, needed repairs; deterioration; the presence of hazardous wastes, toxic substances, or adverse environmental conditions; etc.) that were apparent during the inspection of the property *or* that he or she became aware of during the research involved in performing the appraisal.

The appraiser is expected to consider and describe the overall quality and condition of the property and identify items that require immediate repair as well as items where maintenance may have been deferred, which may or may not require immediate repair. On the other hand, an appraiser is not responsible for hidden or unapparent conditions. In addition, we do not consider the appraiser to be an expert in all fields, such as environmental hazards. In situations where an adverse property condition may be observed by the appraiser but the appraiser may not be qualified to decide whether that condition requires immediate repair (such as the presence of mold, an active roof leak, settlement in the foundation, etc.), the property must be appraised subject to an inspection by a qualified professional. In such cases, the lender may need to ask the appraiser to update his or her appraisal based on the results of the inspection, in which case the appraiser would incorporate the results of the inspection and measure the impact, if any, on his or her final opinion of market value.

### **5. In what situations should a property be appraised "as-is" versus "as-repaired"?**

Fannie Mae permits an appraisal to be based on the "as-is" condition of the property as long as any minor conditions, such as deferred maintenance, do not affect the livability, 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 include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass. Minor conditions and deferred maintenance typically are due to normal wear and tear from the aging process and the occupancy of the property. Such conditions generally do not rise to the level of a "required repair." Nevertheless, they must be reported.

The appraiser must identify physical deficiencies that could affect the soundness, structural integrity, or livability of the property as part of his or her description of the physical condition of the property. These may include cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, inadequate electrical service or plumbing fixtures, etc. In situations where an adverse property condition may be observed by the appraiser but the appraiser may not be qualified

to decide whether that condition requires immediate repair, the property must be appraised subject to an inspection by a qualified professional. In such cases, the lender must have the property inspected and any material conditions repaired before it delivers the mortgage loan to Fannie Mae. The appraiser may be asked to update his or her appraisal based on the results of the inspection, in which case the appraiser would incorporate the results of the inspection and measure the impact, if any, on his or her final opinion of market value.

## **6. Why was the new appraiser's certification # 23 added?**

The appraiser's certification # 23 is an acknowledgment by the appraiser that certain parties to a mortgage finance transaction that are not the Lender/Client and/or Intended User often rely on the appraisal report. This new certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

The Intended User is the party for whom the appraiser is writing the report, which is the Lender/Client for a residential mortgage finance transaction. The revised appraisal report forms clearly identify the Intended User as defined by the Uniform Standards of Professional Appraisal Practice as the Lender/Client. The acknowledgment of other parties that often rely on the appraisal report is not meant to expand the list of Intended Users. Instead, it is meant to clarify that others, although not Intended Users, often rely on the appraisal report as part of a mortgage finance transaction.

Our intent was to clarify through the use of this new certification that the appraiser is accountable for the quality of his or her work to those who often rely on it as part of a mortgage finance transaction. The appraiser's accountability for the quality of his or her appraisal should not be limited to the Lender/Client and/or Intended User identified in the appraisal report. Fannie Mae believes that parties to a mortgage finance transaction that are not the Lender/Client or Intender User should be able to rely on the accuracy of an appraisal report prepared by a state-licensed or state-certified appraiser and the appraiser should be held accountable for the quality of that appraisal because their reliance is customary and reasonable. We are committed to overcome the prevailing feeling in the appraisal and lending communities that appraisers are too often not held accountable for the quality of their appraisals.

## **7. What is Fannie Mae's perspective on Intended Users as defined by the Uniform Standards of Professional Appraisal Practice (USPAP) and the other parties to a mortgage finance transaction that often rely on the accuracy of an appraisal?**

The Intended User, as defined by the USPAP, in a mortgage finance transaction is the Lender/Client and any other party identified by the appraiser (by name or type) as a user of the appraisal report based on communication with the Lender/Client when the appraisal assignment is accepted. The Intended User is the party for whom the appraiser is writing the report, which is clearly defined on the revised appraisal report forms as the Lender/Client. Although the other parties to a mortgage finance transaction that are identified in certification # 23 generally do not "use" the appraisal report like the Lender/Client, they often rely on the accuracy of the appraisal report. For instance:

- A borrower's contract to purchase a home often is contingent on an appraisal report confirming that the market value of the property is at least as much as the sale price for the purchase

transaction. In fact, this may be a standard requirement for some mortgage lending programs and/or traditional practice in some geographic locations.

- It also is common for mortgage lenders to disclose any physical deficiencies or adverse conditions reported by the appraiser to the borrower for both purchase money and refinance transactions. For example, Fannie Mae recommends that lenders disclose all known property condition issues to the borrower so that the borrower may take any necessary actions to address such issues.
- Similarly, lenders (other than the Lender/Client), investors, and mortgage insurers routinely rely on the appraisal report obtained by the Lender/Client when mortgage loans are assigned, sold, or insured.

These parties to a mortgage finance transaction that may rely on the quality of an appraisal report that was prepared for another as the Lender/Client and Intended User clearly do not use the appraisal report like the Lender/Client. Such parties often may not even receive or read the appraisal report, although they rely on the appraisal report conclusions as part of the normal course of business for a mortgage finance transaction. In addition, their reliance on the appraisal report is subject to the stated Intended Use, Scope of Work, purpose of the appraisal, and Definition of Market Value, which are included on each of the revised appraisal report forms.

#### **8. Why not treat all parties that may rely on an appraisal report as part of a mortgage finance transaction as users of the appraisal and identify them as Intended Users?**

The revised appraisal report forms clearly identify the Intended User as defined by the Uniform Standards of Professional Appraisal Practice as the Lender/Client. Therefore, it is Fannie Mae's position that the other parties to the mortgage finance transaction that often rely on the accuracy of an appraisal ordinarily are not Intended Users. Our rationale is simply that identifying these other parties in certification # 23 as Intended Users is neither practical nor appropriate.

- It is not practical because the Lender/Client in a mortgage finance transaction generally cannot identify, when it engages the appraiser for the assignment, all the other parties that might rely on the appraisal. For example, the lender will not know whether a mortgage insurer will be involved until after the appraisal is completed, because only then can the loan-to-value ratio be calculated. In addition, the lender may not know at the time of loan origination whether it will hold the loan in its portfolio or sell it in the secondary market. And if it plans to sell the loan in the secondary market, it may not know who the secondary market investor will be.
- It is not appropriate because the appraisal ordinarily is not prepared to address the specific needs of these other parties that often rely on the appraisal. In such cases, none of them should be named as an Intended User, and the fact that they are not named provides clear notice that the appraisal was not prepared to address their specific needs, but rather to address the specific needs of the Lender/Client as the Intended User based on the stated Intended Use, Scope of Work, purpose of the appraisal, Definition of Market Value, and the reporting requirements of the appraisal report form.

## **9. Why are appraisers concerned about the revised certifications on the appraisal report forms?**

Some appraisers believe that these new certifications have increased their professional accountability and liability. For instance, in new certification # 23, the appraiser acknowledges that parties, other than the Lender/Client, often rely on the appraisal report as part of a mortgage finance transaction. This is simply an acknowledgement by the appraiser of the reality of a mortgage finance transaction. It clarifies that the parties to a mortgage finance transaction, such as the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants, often rely on the appraisal report. In addition, new certification # 25 was developed for the appraiser to acknowledge that any intentional or negligent misrepresentation may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both.

Many in the appraisal community have made it clear to us that they would prefer to be accountable *only* to the Lender/Client. Fannie Mae believes that the appraiser's accountability for the quality of his or her appraisal for a mortgage finance transaction must *not* be limited to the Lender/Client because such limitations undermine our secondary market activity.

## **10. Why is there confusion in the appraisal community regarding certification # 23?**

The Appraisal Standards Board of The Appraisal Foundation has stated that they see little distinction between parties that “use” an appraisal report and parties that “rely” on an appraisal report. Therefore, they believe that appraisers must clarify in their appraisal reports whether the parties listed in certification # 23 are Intended Users as defined by the Uniform Standards of Professional Appraisal Practice. Although this position was communicated as an informal Q and A, which does not establish new standards or interpret existing standards, it has created confusion in the appraisal community.

## **11. What additional notices or statements will Fannie Mae accept on the revised appraisal report forms to eliminate any confusion regarding certification # 23?**

Appraisers traditionally have not identified the other parties to a mortgage finance transaction that often rely on the accuracy of the appraisal report as Intended Users based on the current definition of an Intended User in the Uniform Standards of Professional Appraisal Practice. However, if the appraiser believes that any of these parties should be identified as additional Intended Users based on information provided by the Lender/Client or from other sources, he or she should identify them as such in the appraisal report. Fannie Mae will accept such appraisals.

We recognize, however, that there may be confusion in the appraisal community about the distinction between parties who “use” and parties who “rely” on appraisal reports. In view of this, we will accept the following additional notice or statement when the appraiser believes the Lender/Client is the only Intended User:

“The Intended User of this appraisal report is the Lender/Client. The Intended Use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the stated Scope of Work, purpose of the appraisal, reporting requirements of this

appraisal report form, and Definition of Market Value. No additional Intended Users are identified by the appraiser.”

The use of this additional notice or statement may help to clarify the identification of the Intended User as addressed in the Uniform Standards of Professional Appraisal Practice and on the revised appraisal report forms. Fannie Mae will *not* accept appraisals with additional notices or statements that may conflict with certification # 23, which is simply an acknowledgment by the appraiser that parties to the mortgage finance transaction that are not the Lender/Client or Intended User often rely on the appraisal report. In particular, the appraiser’s accountability for the quality of his or her appraisal for a mortgage finance transaction must not be explicitly limited to the Lender/Client. In certification # 23, the appraiser acknowledges the reality of a mortgage finance transaction that reliance by these other parties is customary and reasonable.

## **12. How can appraisers assist lenders in determining an appropriate level of hazard insurance coverage for loans to be delivered to Fannie Mae?**

Fannie Mae requires property insurance for first mortgages that protects against loss or damage from fire and other hazards. The hazard insurance coverage should provide for claims to be settled on a replacement cost basis. We prefer lenders to rely on a replacement cost estimate for the property that is made by the insurer. However, we are generally hearing from insurers that although they may provide some guidance about what the replacement cost should be, they consider it to be the responsibility of the consumer to determine their level of coverage. The fact that insurers appear to be reluctant to determine the replacement cost for a dwelling has become even more significant due to the general lack of guaranteed replacement cost policy endorsements. In addition, some states prohibit lenders from requiring levels of hazard insurance that exceeds replacement cost for the property.

Lenders that choose to rely on the appraiser to provide a replacement cost estimate to determine the level of hazard insurance coverage required for a one-unit property should request that the appraiser provide the information in the “Cost Approach To Value” part of either the revised *Uniform Residential Appraisal Report* (Fannie Mae Form 1004 dated March 2005) or the *Exterior-Only Inspection Residential Appraisal Report* (Fannie Mae Form 2055 dated March 2005) *or* to report the information as an attachment to the appraisal report form. In such cases, lenders should rely on the appraiser’s estimate of the replacement cost of the improvements, which is reported as the “Total Estimate of Cost New” on the revised forms. This estimate does not include any form of depreciation or obsolescence. It is not appropriate for the lender simply to subtract the reported site or land value from the appraised value of the property to make that determination because that result is an estimate of the depreciated value of the improvements, not an estimate of their replacement cost.

## **13. What is expected with regard to the appraiser’s reporting on the Scope of Work for an appraisal?**

The Scope of Work for an appraisal based on an interior and exterior property inspection reported on the revised appraisal report forms is based on the complexity of the appraisal assignment and the reporting requirements of the appraisal report form, including the stated Definition of Market Value,

Statement of Assumptions and Limiting Conditions, and Certifications. The appraiser is required, at a minimum, to:

- perform a complete visual inspection of the interior and exterior areas of the subject property;
- inspect the neighborhood;
- inspect each of the comparable sales, at least from the street;
- research, verify, and analyze data from reliable public and/or private sources; and
- report his or her analysis, opinions, and conclusions in the appraisal report.

The stated Scope of Work on the appraisal report forms reflects the minimum level of research and analysis required. The appraiser can expand the minimum Scope of Work for the appraisal and report on any additional research or analysis that was necessary and performed based on the complexity of the appraisal assignment. The need for an expanded Scope of Work is specific to the particular appraisal assignment and should be the exception, not the norm, for appraisals on typical one-unit properties.