

## Selling Part VII - Property and Appraisal Analysis

This Part--Property and Appraisal Analysis--details our general requirements for analyzing the property appraisal aspects of conventional mortgages secured by one- to four-family properties and VA mortgages secured by two- to four-family properties. It also discusses special considerations for certain types of housing--units in condominium and PUD projects; properties affected by environmental hazards or substances; manufactured (and factory-built) housing units; energy-efficient housing; mixed-use properties; units in cooperative projects; and properties located in special assessment or community facilities districts--that merit special consideration in the property and appraisal review. Because the evaluation of a property is such a vital part of the risk analysis, we expect lenders to place as much emphasis on underwriting the property and reviewing the appraisal as they do on underwriting the borrower's creditworthiness.

Fannie Mae holds the lender responsible for the accuracy of both the appraisal and its assessment of the marketability of the property; therefore, it is important for a lender's underwriters to understand their role in the appraisal process and their relationship to the appraiser.

. The appraiser's role is to provide the lender with an accurate, and adequately supported, estimate of value and a complete, accurate description of the property.

. The underwriter's role is to review the appraisal report to assure that it is of professional quality and is prepared in a way that is consistent with our appraisal standards, to analyze the property based on the appraisal, and to judge the property's acceptability as security for the mortgage requested in view of its value and marketability.

We require appraisers to provide complete and accurate reports. The estimate of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment. When the information or methodology of an appraisal requires additional clarification or justification, the lender's underwriter must obtain from the appraiser any information that is necessary to make an informed decision concerning the property.

These requirements are intended to provide guidance to underwriters and appraisers as to the type of information that is needed to make a prudent underwriting decision. They are also designed to provide what we feel are minimum acceptable appraisal standards. We recognize that our guidelines may not address every appraisal problem; therefore, we allow the appraiser discretion to properly develop the value estimate. The appraiser must, however, provide sound reasoning in his or her appraisal report for any decisions he or she makes that are not specifically covered by our standards.

This Part VII consists of four Chapters:

- *Chapter 1--Appraiser Qualifications--*discusses the lender's responsibility for selecting appraisers and for reviewing their appraisals both initially and on an on-

going basis, the use of supervisory or review appraisers, and Fannie Mae's right to refuse to accept appraisals prepared by specific appraisers.

- *Chapter 2--Appraisal Documentation and Certifications--*describes the various appraisal report forms that are to be used to document an appraisal and any required exhibits to them, discusses requirements related to the age of an appraisal report, explains the types of appraisals needed for proposed and existing construction, and references the various certifications that an appraiser must make.
- *Chapter 3--Special Appraisal Considerations--*discusses considerations that should be given to properties with unusual features, points out the need for properties to meet specific eligibility criteria in order for the mortgage to be delivered to us, and explains the detrimental effect that certain environmental conditions can have on a property's value.
- *Chapter 4--Reviewing the Appraisal Report--*discusses the requirements for analyzing a property and its appraisal.

## **Chapter 1 - Appraiser Qualifications**

It is essential that lenders obtain an independent, disinterested examination and valuation of the properties that secure mortgages they intend to sell to Fannie Mae; therefore, lenders must select the appraiser and order (and receive) the appraisal report for each mortgage transaction, rather than allowing the borrower or any other party who has an interest in the transaction (such as the property seller or the real estate broker) to do so. This will assure that the appraiser will remain free of any outside influence in the valuation process. Fannie Mae does not approve appraisers. Therefore, when selecting an appraiser, lenders must not give any consideration to an appraiser's representation that he or she is approved or qualified by Fannie Mae. Because lenders are solely accountable for the performance of the appraisers they select, they must take appropriate steps to ensure that an appraiser is qualified to perform appraisals for the particular types of property and the property locations that the lender intends to refer to that appraiser.

If a lender chooses to rely on a specific appraiser or appraisal service to review the qualifications of--or even to select--an individual to perform appraisals for the lender, the lender should establish appropriate qualifications to ensure that acceptable individuals are selected. We recommend that the lender require the appraiser or appraisal service that makes the selection to assume full responsibility for the quality of the appraisal. However, imposing this responsibility on the appraiser or appraisal service will in no way relieve the lender of its warranties related to the appraisal or the condition of the property.

### **Section 101 - Review of Appraiser's Qualifications**

When evaluating an appraiser's qualifications, a lender should review the appraiser's education and experience, sample appraisals, professional affiliations, and references from prior clients and employers. Professional appraisal designations can be helpful to lenders in evaluating an appraiser's qualifications, particularly when the designation is from a nationally recognized organization that has formal experience, education, and ethics requirements that are strongly administered. If the lender considers an appraisal designation in its evaluation, it should be familiar with the appraisal organization's specific requirements to assure that the designation is evaluated appropriately. However, federal law prohibits a lender from selecting or hiring an appraiser based solely on the appraiser's membership in any particular appraisal organization or from not hiring an appraiser based on his or her lack of membership in any organization.

The appraiser must be experienced in appraising the types of properties that the lender intends to use his or her services for, should have access to the necessary data sources, and should currently be active in appraisal work. Before using an appraiser's services, the lender should be satisfied that the appraiser has demonstrated the ability to perform quality appraisals. Lenders must not assume that an appraiser is qualified simply based on his or her membership in, and professional designation from, an appraisal organization or the fact that he or she is state-licensed or -certified.

#### **Section 101.01 - Licensing and Certification Requirements**

We require lenders to use appraisers that are state-licensed or -certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989) to appraise the properties that secure mortgages they intend to deliver to us. All Fannie Mae lenders (and any third-party originators they use) must be aware of, and in full compliance with, state laws for licensing and certification of real estate appraisers. The lender must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law, either by including the license or certification number with the appraiser's list of qualifications that the lender has on file or by retaining a copy of the license or certification in the file the lender maintains for the appraiser. The appraiser must note his or her license or certification number on the individual appraisal report forms.

When a lender delivers a mortgage to us, it warrants that the property has been appraised by a state-licensed or -certified appraiser. Our appraisal report forms define the appraiser as the individual who personally inspected the property being appraised, inspected the exterior of the comparables, performed the analysis, and prepared and signed the appraisal report as the appraiser. This definition does not preclude an appraiser from relying on individuals that are not state-licensed or -certified to provide significant professional assistance (such as an appraiser trainee or an employee of the appraiser doing market data research or data verification) in the development of the appraisal. The state-licensed or -certified appraiser who signs the appraisal report must acknowledge in the report the extent of the professional assistance provided by others and the specific tasks performed by each such individual and must certify that the named individual(s) are qualified to perform the tasks. Under some state laws, a lender's use of an unlicensed or uncertified appraiser who is working as an employee or sub-contractor of a licensed or certified appraiser will satisfy the state's licensing and certification requirement, as long as the appraisal report is signed by a state-licensed or -certified "supervisory" or "review" appraiser.

If a lender is unable to make the required warranty regarding the use of a state-licensed or -certified appraiser because it is experiencing significant delays in obtaining appraisals as the result of a scarcity of state-licensed or -certified appraisers in the state or locality, it must document the individual mortgage file with a copy of an authorized temporary waiver of the appraiser licensing and certification requirements (or a copy of its letter requesting such a waiver). Requests for these temporary waivers should be directed to the Appraisal Subcommittee of the Federal Financial Institutions Examination Council; 2100 Pennsylvania Avenue, NW; Suite 200; Washington, DC 20037.

### **Section 101.02 - Use of Supervisory or Review Appraisers**

We allow an unlicensed or uncertified appraiser who works as an employee or sub-contractor of a licensed or certified appraiser to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so)--as long as the appraisal report is signed by a licensed or certified "supervisory" or "review" appraiser and is acceptable under state law. In some cases, a lender may request that the appraisal

reports prepared by a specific state- licensed or -certified appraiser be co-signed by his or her employer or contractor as a "supervisory" appraiser either because that is a tradition in the locality or because it wants to acknowledge the relationship between the appraiser and the employer or contractor. When a "supervisory" appraiser is used, the "supervisory" appraiser must certify that he or she directly supervises the appraiser who prepared the appraisal report, has reviewed the appraisal report, agrees with the statements and conclusions of the appraiser, agrees to be bound by some of the same certifications that the appraiser made, and takes full responsibility for the appraisal report. If an appraiser is performing a "review" function that is different from the one discussed above, he or she must prepare a separate review report and attach it to the appraisal report being reviewed. For instance, this approach would apply when a lender chooses to delegate the appraisal management function to a specific appraiser or appraisal service and one of the conditions of the delegation is that the appraiser or appraisal service must assume responsibility for the appraisal.

### **Section 101.03 - On-going Review of Appraisals**

Lenders must continually evaluate the quality of the appraiser's work through the normal underwriting review of all appraisal reports, as well as through the spot-check field review of appraisals as part of its quality control system. Lenders may use our Residential Appraisal Field Review Report (Form 2000) for the spot-check appraisal component of their quality control system if they chose to do so, but we do not require its use. Lenders must be satisfied that any appraisers they use for spot-check field reviews are well-qualified. The lender must have sufficient knowledge of our appraisal requirements to enable it to determine that the appraiser has properly addressed our specific criteria and that the appraiser has not engaged in any unacceptable appraisal practices.

### **Section 102 - Unacceptable Appraisal Practices**

Since we hold the lender responsible for the quality of the appraisals it uses to support the value of a security property, the lender should take appropriate action to assure that the appraisers it uses do not engage in unacceptable practices. The following are examples of appraisal practices that we consider as unacceptable:

- Inclusion of inaccurate factual data about the subject neighborhood, site, improvements, or comparable sales;
- Failure to comment on negative factors with respect to the subject neighborhood, subject property, or proximity of the subject property to adverse influences;
- Use of comparables in the valuation process even though the appraiser has not personally inspected the exterior of the comparables by, at least, driving by them;
- Selection and use of inappropriate comparable sales or the failure to use comparables that are locationally and physically the most similar to the subject property;

- Use of data--particularly comparable sales data--that was provided by parties who have a financial interest in the sale or financing of the subject property without the appraiser's verification of the information from a disinterested source. For example, it would be inappropriate for an appraiser to use comparable sales provided by the real estate broker who is handling the sale of the subject property, unless the appraiser verifies the accuracy of the data provided with another source and makes an independent investigation to determine that the comparables provided were the best ones available;
- Use of adjustments to the comparable sales that do not reflect the market's reaction to the differences between the subject property and the comparables, or the failure to make adjustments when they are clearly indicated;
- Development of a valuation conclusion that is based--either partially or completely--on the sex, race, color, religion, handicap, national origin, or familial status of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property; or that is based on any other factor that local, state, or federal law designates as being discriminatory, and thus, prohibited; and
- Development of a valuation conclusion that is not supported by available market data.

### **Section 103 - Refusal to Accept Certain Appraisals**

Fannie Mae has the right, at any time, to refuse to accept appraisals prepared by specific appraisers or to notify a lender that we will no longer accept appraisals prepared by a given appraiser. When we notify a lender that this is the case, we will allow the lender a certain amount of time to clear its mortgage pipeline--after that, it must not submit to us mortgages secured by any properties that were appraised by that individual.

## **Chapter 2 - Appraisal Documentation and Certifications**

The lender must disclose to the appraiser any and all information about a security property that it is aware of if the information could affect either the marketability of the property or the appraiser's estimate of its market value. Specifically, the lender must make sure that it provides the appraiser with all appropriate financing data and sales concessions for the subject property that will be, or have been, granted by anyone associated with the transaction. Generally, this can be accomplished by providing the appraiser a copy of the complete, ratified sales contract for the property that is to be appraised. If the lender is aware of additional pertinent information that is not included in the sales contract, it should inform the appraiser. Information that must be disclosed includes:

- settlement charges;
- loan fees or charges;
- discounts to the sales price;
- payment of condominium/PUD fees;
- interest rate buydowns, or other below-market-rate financing;
- credits or refunds of the borrower's expenses;
- absorption of monthly payments;
- assignment of rent payments; and
- non-realty items that were included in the transaction.

The lender must also disclose to the appraiser any information about an environmental hazard in or on the subject property or in the vicinity of the property that it obtains from the borrower, the real estate broker, or any other party to the transaction so the appraiser can consider any influence the hazard may have on the property's value and marketability.

### **Section 201 - Age of Appraisal**

The property must have been appraised within the 12 months that precede the date of the note and mortgage. When the appraisal report will be more than four months old on the date of the note and mortgage--regardless of whether the property was appraised as proposed or existing construction--the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value since the date of the original appraisal.

- If the appraiser indicates that he or she believes that the property has declined in value, the lender must obtain a new appraisal for the property.
- If the appraiser indicates that he or she believes that the property has not declined in value, the lender should request the appraiser to provide a certification to that effect, based on his or her exterior inspection of the property and knowledge of current market conditions. The inspection and the certification must occur within the four months that precede the date of the note and mortgage.

Generally, the original appraiser should complete the certification of value; however, the lender may use a substitute appraiser. In such cases, the substitute appraiser must review the original appraisal and certify that the appraiser's estimate of market value was reasonable on the date of the original appraisal report. The lender should note in its files why the original appraiser was not used.

### **Section 202 - Status of Construction**

For proposed construction, the appraisal may be based on plans and specifications if the lender obtains a certification of completion before it delivers the mortgage to us. This certification should be completed by the appraiser and must be accompanied by photographs of the completed improvements. The appraiser must certify that the improvements were completed in accordance with the requirements and conditions stated in the original appraisal report. Minor items that do not affect livability may be incomplete (if weather-related circumstances prevented their completion) as long as the lender has arranged for an adequate escrow to guarantee their completion. (We consider funds equal to at least one and one-half times the cost to complete the items as a reasonable amount to escrow.)

For existing construction, the improvements must be complete when the mortgage is delivered to us. The appraisal may be based on the "as is" condition of the property if minor conditions that do not affect the livability of the property exist--such as minor deferred maintenance--as long as the appraiser's estimate of value reflects the existence of these conditions. The lender must review carefully the appraisal for a property appraised in an "as is" condition to assure that the property does not have any physical deficiencies or conditions that would affect its livability. If there are none, the lender does not need to require minor repairs to be completed before it delivers the mortgage to us. When there are incomplete items or conditions that do affect the livability of the property--such as a partially completed addition or renovation--or physical deficiencies that could affect the soundness or structural integrity of the improvements, the property must be appraised subject to completion of the specific alterations or repairs. In such cases, the lender must obtain a certificate of completion from an appraiser before it delivers the mortgage to us. The certification does not need to include photographs of the property unless those that accompanied the original appraisal report are no longer representative of the completed property.

Generally, the original appraiser should complete the certification of completion; however, the lender may use a substitute appraiser. In such cases, the substitute appraiser must review the original appraisal and certify that the appraiser's description of the property was accurate and the estimate of market value was reasonable on the date of the original appraisal report. The lender should note in its files why the original appraiser was not used.

### **Section 203 - Appraisal Report Forms**

Our appraisal report forms are designed to provide a concise format for presenting both the appraiser's description and analysis of the subject property and the valuation analysis leading to the estimate of market value. The appraiser must complete these forms in a way that will clearly reflect the thoroughness of his or her investigation and analysis and provide the rationale for the estimate of market value. Although the scope or extent of the appraisal process is guided by our appraisal report forms, the forms do not limit or control the appraisal process. The appraiser's analysis should go beyond any limitations of the forms, with additional comments and exhibits being used when they are needed to adequately describe the subject property, document the analysis, 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. Only appraisals that have the purpose of estimating market value, as defined in the Statement of Limiting Conditions and Appraiser's Certification (Form 1004B), may be used for properties that secure mortgages that will be delivered to Fannie Mae. The appraisal report that should be used depends on the type of property that is being appraised. The appraiser must use the latest version of one of the following forms and include any other data--either as an attachment or addendum to the appraisal report form--needed to adequately support the estimate of market value:

- (also see Part IX, Form 1004)
- Uniform Residential Appraisal Report (Form 1004), for one-family properties and units in planned unit developments (including those that have an illegal second unit or accessory apartment that we will consider as acceptable security) that secure either first or second mortgages. Form 1004 may also be used for two-family properties, if each of the units is occupied by one of the co-borrowers as his or her principal residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage). In addition, appraisals for units in condominium projects that consist solely of detached dwellings may be documented on Form 1004, if there are no common area improvements (other than greenbelts, private streets, and parking areas) and the appraiser includes an adequate description of the project and information about the owners' association fees and the quality of the project maintenance;
- (also see Part IX, Form 1025)
- Small Residential Income Property Appraisal Report (Form 1025), for two- to four-family properties (including those that are located in PUD projects). [For VA mortgages, we also require the Certificate of Reasonable Value (VA Form 26-1843) or the Master Certificate of Reasonable Value (VA Form 26-1843a)];
- (also see Part IX, Form 1073)

- Individual Condominium Unit Appraisal Report (Form 1073), for single-family properties that are units in condominium projects; or
- (also see Part IX, Form 1075)
- Individual Cooperative Interest Appraisal Report (Form 1075), for single-family properties that are units in cooperative projects.

Appraisers may use computer software programs that are designed to reproduce our appraisal report forms--including programs that have "expandability" features that allow increases in areas of the forms that call for the insertion of narrative comments. However, any expansion must not result in the "Sales Comparison Analysis" section being separated so that it appears on two pages. In addition, the sequence of the information--as well as all of the specific information (including the instructions, entries, directions, etc.)--must be exactly as it appears on the hard-copy of the form(s).

### **Section 204 - Exhibits to Appraisal Reports**

We require certain exhibits to support each appraisal report. The exhibits may vary depending on the type of property being appraised or on whether the borrower is purchasing the property as a residence or for investment purposes. Specifically, we require:

- A street map that shows the location of the subject property and of all comparables that the appraiser used;
- An exterior building sketch of the improvements that indicates the dimensions. For units in condominium or cooperative projects, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions. Generally, the appraiser must also include calculations to show how he or she arrived at the estimate for gross living area; however, for units in condominium or cooperative projects, the appraiser may rely on the dimensions and estimate for gross living area that are shown on the plat. In such cases, the appraiser does not need to provide a sketch of the unit as long as he or she includes a copy of the plat with the appraisal report. A floor plan sketch that indicates the dimensions is required instead of the exterior building or unit sketch if the floor plan is functionally obsolete, resulting in a limited market appeal for the property in comparison to competitive properties in the neighborhood;
- Clear, descriptive photographs (either in black and white or color) that show the front, back, and a street scene of the subject property, and that are appropriately identified. (Photographs must be originals that are produced either by photography or electronic imaging);
- Clear, descriptive photographs (either in black and white or color) that show the front of each comparable sale and that are appropriately identified. (We do not require

photographs of comparable rentals and listings.) Generally, photographs should be originals that are produced by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's files are acceptable if they are clear and descriptive;. Certifications of completion and value--either as a letter or as a form that provides the necessary information--if applicable;

- An Operating Income Statement (Form 216), if the property is an investment property (including a two- to four-family property in which the applicant will occupy one unit as a principal residence). The form may be prepared by either the applicant or the appraiser. (If the applicant prepares Form 216, the appraiser's comments on the reasonableness of the projected operating income must be included on the form. If the appraiser prepares Form 216, the lender must make sure the appraiser has operating statements; expense statements related to mortgage insurance premiums, owners' association dues, leasehold payments, or subordinate financing payments; and any other pertinent information related to the property.);
- A Single-Family Comparable Rent Schedule (Form 1007), if the property is a single-family investment property;
- The Energy Addendum (Form 1004A) or a rating form from the Energy Rated Homes of America, if the borrower is requesting special consideration for an energy-efficient property; and
- Any other data--as an attachment or addendum to the appraisal report form--that are necessary to provide an adequately supported estimate of market value.

### **Section 205 - Appraiser's Certifications**

We will not purchase or securitize a mortgage unless the appraisal is based on our definition of market value and the Statement of Limiting Conditions and Appraiser's Certification (Form 1004B), as it was revised in June, 1993. To acknowledge that the current version of the Form 1004B was used and to assure the lender that the appraiser is certifying to our current definition of value, the appraiser must insert "06/93" in the blank that references "Freddie Mac Form 439/Fannie Mae Form 1004B (Revised \_\_\_\_\_)" in the "Reconciliation" section of the applicable appraisal report form.

The Statement of Limiting Conditions and Appraiser's Certification (Form 1004B) must be submitted as an exhibit to the appraisal report. The appraiser may not make a change or a deletion to this certification, although he or she may make additional certifications on a separate page or form. Acceptable additional certifications might include those required by state law or those related to the appraiser's continuing education or membership in an appraisal organization. (Appraisers may not add additional limiting conditions.) Lenders are responsible for reviewing any additional certifications made by an appraiser to assure that they do not conflict with the standard certifications on Form 1004B or with any of our policies.

## Section 205.01 - Definition of Market Value

Fannie Mae's definition of market value is intended to assure that appraisals reflect an estimate of market value after adjustments for any special or creative financing or sales concessions--such as seller contributions, interest rate buydowns, etc.--have been made. The appraiser must certify that he or she used the following definition of market value (which is stated in the 06/93 version of Form 1004B):

*Market value is the most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, 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: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he considers his own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and (5) 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.*

*\*Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since 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 based on the appraiser's judgment.*

The asterisked section of the definition provides consistent interpretation for appraisers. Specifically, we want to emphasize that the phrases ". . . those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions . . ." refer to all of the sellers in a specific market area.

No distinction is made between a specific group of sellers, builders, developers, or individuals in the resale market--they are all considered to be individual sellers in the market. To illustrate: When a property seller is paying part of the purchaser's settlement or closing costs--or is paying for an interest-rate buydown or other below-market financing--but virtually all of the other sellers in the market are not doing the same as a result of law or tradition, the appraiser would need to make an adjustment even if there are other groups of sellers--such as builders--who are also offering concessionary financing.

The appraiser can adjust a comparable property that has special or creative financing or sales concessions by comparing it to other properties that had financing terms offered by a third party institutional lender--as long as that lender is not already involved in the subject property or transaction. The appraiser should use his or her judgment in establishing the dollar amount for any adjustment to assure that it approximates the market's reaction to the financing or concession at the time of the sale.

### **Section 205.02 - Limiting Conditions and Certifications**

The Statement of Limiting Conditions and Appraiser's Certification (Form 1004B) recognizes the Uniform Standards of Professional Appraisal Practice (except for the departure provision of those standards, which does not apply) that the Appraisal Standards Board of The Appraisal Foundation adopted as the minimum appraisal standards for the appraisal industry. These standards specifically require that the appraiser's certification be included with each individual appraisal report. The appraiser must agree to ten limiting conditions and nine certifications, all of which are set out in detail in the Statement of Limiting Conditions and Appraiser's Certification (Form 1004B). Form 1004B appears in Part IX of this Guide. We have established our own separate appraisal requirements to supplement the Uniform Standards of Professional Appraisal Practice because we believe that this is necessary to assure that all of our specific concerns are addressed for any given appraisal. Our appraisal report forms (Forms 1004, 1025, 1073, and 1075) and the Statement of Limiting Conditions and Appraiser's Certification (Form 1004B) are designed in a way that results in an appraiser's being in full compliance with our requirements if he or she provides all of the information required by these forms and presents the applicable data accurately and completely.

## **Chapter 3 - Special Appraisal Considerations**

Some types of properties require special consideration in the property and appraisal review processes to recognize the special contributions of unusual features, the detrimental effect of certain environmental conditions, or the need to meet specific criteria in order for a mortgage on the property to be eligible for delivery to Fannie Mae.

(also see Part VIII)

Units in condominium, PUD, or cooperative projects also require special consideration because of the interrelationship between the property being appraised and other units within the development or project. We will purchase or securitize unit mortgages in condominium, PUD, or cooperative projects that meet our project eligibility criteria. To determine project eligibility, a lender often needs access to certain project information that is not always readily available--such as information about the project's insurance coverage, legal documents, or budget; the payment status of owners' association (or cooperative corporation) fees; and the ownership and occupancy status of individual units within the project. For this reason, we allow the lender to rely on the appraiser, the owners' association (or cooperative corporation), the management company, the real estate broker, and the project developer as sources for information, although we expect the lender to make a diligent effort to ensure the accuracy of the information obtained from these sources. Project acceptance--and the availability of financing--often depends on the willingness of the owners' association, cooperative corporation, or management company to obtain and provide requested information.

### **Section 301 - Units in Condominium Projects**

A condominium project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project.

Most appraisals for condominium units must be documented on the *Individual Condominium Unit Appraisal Report* (Form 1073). However, we will accept appraisals of detached condominium units on the *Uniform Residential Appraisal Report* (Form 1004) if the condominium project does not include any common area improvements (other than greenbelts, private streets, and parking areas), and the appraiser includes on Form 1004 an adequate description of the project and information about the owners' association fees and the quality of the project maintenance.

The appraisal of an individual unit in a condominium project requires the appraiser to analyze the condominium project as well as the individual unit. The appraiser must pay special attention to the location of the individual unit within the project, the project's amenities, and the amount and purpose of the owners' association assessment since the marketability and value of the individual units in a project depend on the marketability and appeal of the project itself.

### **Section 302 - Units in PUD Projects**

A planned unit development (PUD) is a project or subdivision that consists of common property and improvements that are owned and maintained by an owners' association for the benefit and use of the individual units within the project. For a project to qualify as a PUD, the owners' association must require automatic, nonseverable membership for each individual unit owner, and provide for mandatory assessments. Zoning should not be the basis for classifying a project as a PUD.

Appraisals for PUD units should be documented on the *Uniform Residential Appraisal Report* (Form 1004). It may be necessary to use an addendum to Form 1004 to provide this information for appraisals related to attached units in new PUD projects (particularly when the developer is still in control of the owners' association) in order to assure that all the specific eligibility criteria for this type of project are adequately addressed.

The appraisal of an individual unit in a PUD requires the appraiser to analyze the PUD project as well as the individual unit. The appraiser must pay special attention to the location of the individual unit within the project, the project's amenities, and the amount and purpose of the owners' association assessment since the marketability and value of the individual units in a project generally depend on the marketability and appeal of the project itself.

### **Section 303 - Properties Affected by Environmental Hazards**

If the real estate broker, the property seller, the property purchaser, or any other party to the mortgage transaction informs the lender that an environmental hazard exists in or on the property or in the vicinity of the property, the lender must disclose that information to the appraiser and note the individual mortgage file accordingly. (We also require the lender to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.)

When the appraiser has knowledge of any hazardous condition (whether it exists in or on the subject property or on any site within the vicinity of the property)--such as the presence of hazardous wastes, toxic substances, asbestos-containing materials, ureaformaldehyde insulation, radon gas, etc.--he or she must note the hazardous condition on the appraisal report and comment on any influence that the hazard has on the property's value and marketability (if it is measurable through an analysis of comparable market data as of the effective date of the appraisal) and make appropriate adjustments in the overall analysis of the property's value.

We do 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. However, the appraiser has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that he or she became aware of through the normal research involved in performing an appraisal.

In rare situations, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual impact is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable estimate of market value because there is no comparable market data (such as sales, contract sales, or active listings) available to reflect the impact of the hazard. In such cases, the mortgage will not be eligible for delivery to Fannie Mae.

We will purchase or securitize a mortgage secured by a property that is affected by an environmental hazard if the impact of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal and the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazard. To illustrate: We are frequently asked to address the eligibility of mortgages secured by properties that are located in neighborhoods affected by radon gas or the presence of hazardous wastes. In such situations, we expect the appraiser to reflect any adverse effect or buyer resistance that is demonstrated and measurable through the available comparable market data. Therefore, when a property is located in a neighborhood that has a relatively high level of radon gas or is near a hazardous waste site, we expect the appraiser to consider and use comparable market data from the same affected 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 on the value and marketability of the subject property.

Although our guidelines expressly require the appraiser to include in the appraisal report comments about any influence that an environmental hazard has on the value and marketability of the property and to make appropriate adjustments to the overall analysis of the value of the property, we expect the lender to oversee the performance of the appraisers it employs. The lender must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage requested. We expect lenders to exercise sound judgment in determining the acceptability of the property. For example, since we require the appraiser to comment on the effect of a hazard on the marketability and value of the subject property, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. When the lender has reason to believe that private well water that is on or available to a property might be contaminated as the result of the proximity of the well to hazardous waste sites, the lender is exercising sound judgment if it obtains a "well certification" to determine whether the water meets community standards.

### **Section 304 - Manufactured (and Factory-Built) Housing Units**

Because we have specific eligibility criteria for mortgages secured by manufactured (and factory-built) housing units, the appraiser should make sure that he or she considers these criteria and adequately addresses them in the appraisal report.

Manufactured housing units are single-width or multi-width units that are constructed off-site and then transported to their permanent site where they are completed and/or attached to a foundation. Typically, manufactured housing units are not subject to building codes. A manufactured housing unit must be legally classified as real estate, must be permanently affixed to a foundation, and must assume the characteristics of site-built housing to be eligible as security for a mortgage that is delivered to Fannie Mae. It must also have been built under the Federal Home Construction and Safety Standards that were established by HUD in June, 1976. Other factory-built housing--such as prefabricated, panelized, modular, or sectional housing--needs to assume the characteristics of site-built housing and to meet local zoning and building codes.

We do not have minimum requirements for width, size, or roof pitch for manufactured housing units. Each unit must have sufficient square footage and room dimensions to be acceptable to typical purchasers in the subject market area. The wheels, axles, and trailer hitches must be removed when the unit is placed on its permanent site. We require both perimeter and pier foundations to have footings that are located below the frost line. When piers are used, they must be placed where the unit manufacturer recommends. Anchors must be provided if state law requires them. The foundation system must have been designed by an engineer to meet the soil conditions of the site.

The appraiser must address both the marketability and comparability of manufactured housing units. The materials and construction of the improvements must be acceptable in the subject market area. The appraiser should also comment on the sufficiency of the living area of the unit, interior room size, storage, adequacy of roof pitch and overhangs, and the compatibility of the exterior finish. In addition, the appraiser must address the marketability and value of manufactured housing units in the subject market area in comparison to the marketability of site-built housing in the area.

(See Part VIII)

Single-width manufactured housing units must be located in a Fannie Mae-approved project; a multi-width unit may be located on an individual lot or in any project (although, in certain areas, our regional office may require subdivision approval for units located on individual lots.)

The appraiser should use as comparable sales similar manufactured housing units--comparing single-width units to single-width units and multi-width units to multi-width units. If comparable sales of similar units are not available, the appraiser may use site-built housing as comparable sales, as long as he or she explains why that is being done. When there is a preference for site-built housing in the subject market area, the appraiser must adjust the site-built comparables to reflect the market's reaction to manufactured housing units.

When the subject property is another kind of factory-built housing, the appraiser should use sales of similar factory-built housing as comparables if they are available. If they are not available, the appraiser may use sales of comparable site-built housing, as long as he

or she provides an explanation for doing so and makes appropriate adjustments if there is a market preference for site- built housing.

### **Section 305 - Energy-Efficient Properties**

When a lender is giving special underwriting consideration to a borrower because the property that secures his or her mortgage is energy efficient, the lender can use either of two methods to qualify the dwelling as energy-efficient: development of an energy-efficiency rating by the appraiser or an energy consultant or reliance on the construction of the dwelling having been in compliance with qualifying energy conservation programs or the builder's certification that it has complied with the Council of American Building Officials Model Energy Code.

Regardless of the method used for qualifying a dwelling as "energy efficient," the appraiser must consider the reaction of the market to energy-efficient improvements (or proposed alterations) and reflect their contributory value in the "sales comparison analysis" adjustment grid on the appraisal report form. This adjustment should be based on the appraiser's analysis of comparable properties. However, if adequate comparables are not available, the appraiser may develop an analysis of the present worth of the estimated savings in utility costs. To do this, the appraiser may use a procedure that is similar to the one used in Part II of the Energy Addendum (Form 1004A).

### **Section 306 - Mixed-Use Properties**

Although we will purchase or securitize 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, a doctor's office, a small neighborhood grocery or specialty store, etc.--we have special eligibility criteria for them. Therefore, the appraiser must provide an adequate description of the mixed-use characteristics of the subject property in the appraisal report and the lender must make sure that it considers these criteria and adequately addresses them. Specifically, for a mixed-use property to be acceptable, the following criteria must be met:

- The property must be a one-family dwelling that the borrower occupies as a principal residence.
- The mixed use of the property must represent a legal, permissible use of the property under the local zoning requirements.
- The borrower must be both the owner and the operator of the business.
- The property must be primarily residential in nature.
- The market value of the property must be primarily a function of its residential characteristics, rather than of the business use or any special business-use modifications that were made.

## **Section 307 - Units in Cooperative Projects**

When an appraiser evaluates a cooperative unit, he or she must estimate the market value of the cooperative interest. The cooperative interest is the cooperative shares or other evidence of an ownership interest in the cooperative corporation and the accompanying occupancy rights (excluding the cooperative interest's pro rata share of the debt service of the blanket mortgage). In other words, the cooperative interest is the equity portion that is over and above the pro rata share of the blanket mortgage(s).

To determine the value of the cooperative interest, the appraiser must include, among other things, the information listed below on the Individual Cooperative Interest Appraisal Report (Form 1075), or in an addendum to the appraisal report form. [Much of this information can be obtained from the Request for Cooperative Project Information (Form 1074), if the management agent, cooperative board, or project sponsor/developer uses this form to respond to the lender's or the appraiser's inquiries for project information. When this form is used, the appraiser may transcribe the appropriate information to Form 1075 or attach Form 1074 to Form 1075 as an addendum.]

- The number of shares attributable to the unit and the number of shares issued and outstanding for the cooperative corporation;
- The name of the lienholder, the lien position, and the amount and repayment terms of all project blanket financing;
- The pro rata share of the blanket mortgage payments that are attributable to the unit, as determined by dividing the number of shares attributable to the unit by the total number of project shares;
- The pro rata share of each lien that is attributable to the unit;
- Any tax abatements or exemptions that are attributable to the unit, and their remaining term and provisions for escalation of real estate taxes. (The dollar amount by which the taxes will increase and the year in which the increase will occur should be shown); and
- Any monthly maintenance fees (including utility charges if they are part of these fees), monthly special assessments, ground rent, or other fees for the use of the facilities that are attributable to the unit, and their type, amount, and term (if applicable).

The appraiser must use reliable sources to obtain data on the cooperative project, the individual subject unit, and the comparable properties, and indicate the name of each source on Form 1075 (or on an addendum to it). The appraiser must address any factors that could result in an increase to the monthly debt service for the subject unit. For comparison purposes, the appraiser should indicate in the "sales comparison analysis"

adjustment grid the dollar amount of the monthly assessments for each of the comparable sales.

In many areas, there is limited experience with the cooperative form of ownership. Appraisers always must comment on the acceptance of housing cooperatives in the market area. The degree of acceptance is generally reflected in the availability of similar comparable sales data for cooperative units. If there is limited market acceptance of the cooperative form of ownership, or if it is a relatively new form of ownership in the market area, the appraiser must address any effect that has on the marketability and value of the unit that is being appraised. Because Fannie Mae is concerned about the marketability of the subject property, the appraiser must compare the subject unit to the general market area as well as to other units in the subject cooperative project. This comparison should help demonstrate market acceptance of cooperative units in the area. If the appraiser believes that the submission of more than the three required comparable sales is appropriate to support the estimate of market value, he or she should submit other comparable sales--including contracts for sale--as additional supporting data. Comparables must be from similar types of projects --townhouses, mid-rise, high-rise, etc.--that have similar common amenities and recreational facilities.

Generally, when an appraiser appraises a unit in a cooperative project, he or she should use sales of cooperative units as comparables. However, the appraiser may use sales of condominium units as comparables if cooperative unit sales are not available, as long as he or she explains why those types of comparables were used. When there is a preference for condominium ownership in the subject market area, the appraiser must adjust the condominium comparables to reflect the reaction of the market to the cooperative unit.

If the subject property is a unit in a new or recently converted cooperative project, the appraiser should select as comparables one closed or settled sale from the subject project (if one is available) and two closed or settled sales from outside of the project. If closed or settled sales are not available in the subject project, the appraiser should use comparable sales from competing projects. When the subject property is a unit in an established cooperative project--one that has resale activity-- the appraiser should use as comparables two closed or settled sales from within the subject project (if available) and one closed or settled sale from a competing project.

The appraiser must report the value of the cooperative interest, excluding its pro rata share of the blanket mortgage(s). This value reflects the market value for the cooperative interest of the unit. [To illustrate: When the indicated value of the unit encumbered by the blanket mortgage(s) is \$100,000 and its pro rata share of the blanket mortgage(s) is \$25,000, the value estimate that the appraiser should report for the cooperative interest of the unit is \$75,000.] The appraiser certifies in the appraisal report that "the pro rata share of the blanket mortgage(s) on the real estate has not been included in the market value estimate of the cooperative interest."

### **Section 308 - Properties in Special Assessment or Community Facilities Districts**

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. Generally, this involves the creation of local districts--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 (roads, sewer services, schools, police and fire protection services, libraries, etc.). We expect lenders to know whether or not 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.

### **Section 308.01 - Special Assessment Districts**

Special assessment districts (which may also be 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. The 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 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. When the property being appraised is located in a special assessment district, the lender should request the appraiser to report on any special assessments that affect the property. If the special assessment district is experiencing financial difficulty and that difficulty has an effect on the value or marketability of the subject property, the appraiser must reflect the effect in his or her analysis and note it in the appraisal report. To assure that the reaction of the market to the potential liabilities that may arise within a financially troubled special assessment district is reflected in his or her analysis, the appraiser should consider current listings of properties for sale within the district and any pending contract sales and recent 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 impact 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 estimate of market value. When this is the case, a mortgage secured by a property in that district will not be eligible for delivery to us--at least until such time as an active market develops that

will enable the appraiser to demonstrate the value and marketability of the subject property.

### **Section 308.02 - Community Facilities Districts**

Some states may 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 on-going operation and maintenance costs of a limited number of public services. Proceeds of the special tax are used to support the sale of tax-exempt bonds for the various capital improvements--roads, sewer services, schools, police and fire protection services, and libraries-- that are allowed under the legislation.

The assessment that will be used to repay the tax-exempt bonds becomes an on-going 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. In some cases, the term of the assessment obligation can be quite lengthy (up to 40 years-- unless the assessment is prepaid. In some cases in California, prepayment estimates can range from \$20,000 to \$40,000 for a single-family property, depending on the amount of improvements that were financed, the size of the dwelling, and the year it was purchased.)

Such legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, lenders originating mortgages in community facilities districts should disclose to the appraiser any information that they become aware of regarding special assessments on a given property. They also should caution their appraisers in general about the need to be aware of whether or not the subject property and the comparable sales are located within (or affected by) a community facilities district since properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different special assessment or to no assessment at all. The appraiser must consider the reaction of the market (if any) to the assessment for the applicable community facilities district in his or her analysis by analyzing similarly affected comparable sales, and should note the effect of the assessment in the appraisal report.

## **Chapter 4 - Reviewing the Appraisal Report**

This Chapter is presented in the general order that the major topics appear in on our different appraisal report forms. Therefore, it should provide a usable working reference for lenders.

### **Section 401 - The Subject Property**

The first section of our appraisal report forms is used to identify and describe the location of the subject property; to provide information about property taxes and special assessments; to indicate the occupancy status of the property; to describe the property rights to be appraised; to summarize financing data and sales concessions; and to identify the borrower, the current owner, the client, and the appraiser.

The appraiser must identify the subject property by its complete property address and legal description; a post office box number is not acceptable. The appraiser should indicate the nearest intersection if a house number is not available. When the legal description is lengthy, the appraiser may attach the full description as an addendum to the appraisal report, or may refer simply to its location in the public records.

(also see Section 203)

The appraiser must identify the property rights to be appraised as "fee simple" or "leasehold." In addition, if the appraisal for a PUD or condominium unit is documented on the Uniform Residential Appraisal Report (Form 1004) or the Small Residential Income Property Appraisal Report (Form 1025), the appraiser must indicate whether the subject property is located in a PUD or condominium project.

The appraiser must state the total dollar amount of the loan charges and/or concessions that will be paid by the seller (or any other party who has a financial interest in the sale or financing of the subject property) and provide a brief description of the items on the appraisal report form. If the appraiser knows that the appraisal will be used for a refinance transaction, he or she should indicate that on the form.

### **Section 402 - Neighborhood Analysis**

The purpose of the appraiser's neighborhood analysis is to identify the area (based on common characteristics or trends) that is subject to the same influences as the subject property, not to rate or judge the neighborhood. The sales prices of comparable properties in the identified area should reflect the positive and negative influences of the neighborhood. The results of the neighborhood analysis will enable the appraiser to define the area from which to select comparables, to understand market preferences and price patterns, to examine the effect of different locations within the neighborhood, to determine the influence of nearby land uses, and to identify any other value influences affecting the neighborhood.

To perform a neighborhood analysis, the appraiser should collect pertinent data, make a visual inspection of the neighborhood to observe its physical characteristics and boundaries, and identify land uses and any signs that they are changing. Appraisers should extend their search of the subject market area as far as necessary to assure that all significant influences affecting the value of the subject property are reflected in the appraisal report. Appraisers should use their best judgment in determining and describing neighborhood boundaries. The limits of a neighborhood can be identified by various physical characteristics--including, but not limited to, streets, bodies of water, land uses, types of dwellings, etc. The lender's underwriter should review carefully the neighborhood description to confirm that the appraiser used comparables from within the subject neighborhood in his or her analysis.

A neighborhood analysis should consider the influence of social, economic, government, and environmental forces on property values in the subject neighborhood. However, neither the racial composition nor the age of a neighborhood is an appraisal factor. A property located in an older neighborhood can be as sound an investment as a property located in a new neighborhood, and a property located in a neighborhood inhabited primarily by members of one race can be as sound an investment as one located in a racially mixed neighborhood or in a neighborhood inhabited primarily by a different race. The appraiser must report neighborhood conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors in a neighborhood. In addition, the appraiser must not use subjective terms or phrases--such as "pride of ownership," "no pride of ownership," "lack of pride of ownership," "poor neighborhood," "good neighborhood," "crime-ridden area," "desirable neighborhood or location," "undesirable neighborhood or location," etc.

Fannie Mae does not designate certain areas as being acceptable or unacceptable--in other words, Fannie Mae does not "red-line." Redlining can occur when perceived property risks are based on improper locational factors--such as the arbitrary granting of unfavorable loan terms on the basis of geographic area--or when the perceptions of risk are derived from factors that do not predict risk-- either reliably or not at all. An example of a factor that is not predictive of risk is race--and racial redlining is illegal under federal law. Other factors that serve as a proxy for race are equally impermissible. The appraiser, and the lender's underwriter, must be sensitive to these impermissible factors and apply Fannie Mae's guidelines in a consistent, equitable manner. None of our property guidelines is intended to foster redlining--if any provision is interpreted to do so, it has been misunderstood.

The appraiser should explain any changes that have occurred that might influence the marketability of the properties within the neighborhood. For example, the appraiser must comment if there is market resistance to a neighborhood because of the known presence of an environmental hazard. The lender must be satisfied that the neighborhood will be acceptable to a sufficient number of buyers to support an active, on-going market for the property.

Some lenders underwrite mortgages in urban areas on a block-by-block basis. Block-by-block underwriting and appraisal analysis are acceptable in cases in which rehabilitation has started--either in the block where the subject property is located or in facing blocks visible to the property--but has not yet spread to the rest of the neighborhood. This enables the lender's underwriter to place weight on the positive influences of a neighborhood in an urban area that is being rehabilitated. The acceptability of this type of appraising or underwriting is conditioned on the appraiser demonstrating that local conditions make it appropriate and that all essential factors are considered.

Our appraisal report forms require the appraiser to address a number important factors that are used to analyze the impact that the neighborhood has on the marketability of the property. Some of the key factors are discussed in the following subsections.

### **Section 402.01 - Location**

We will purchase or securitize mortgages that are secured by residential properties in urban, suburban, or rural areas. An "urban" location relates to a city, a "suburban" location relates to the area adjacent to a city, and a "rural" location relates to the country or anything beyond the suburban area. We do not designate certain areas as being acceptable or unacceptable.

The appraiser, and the lender's underwriter, must be sensitive to the varying conditions that characterize different types of locations. Conditions that are typical of certain types of locations may not be present in other locales. This does not mean that the conditions are unacceptable, rather that they must be viewed in context with the nature of the area in which the security property is located. For example, rural properties often have large lot sizes and rural neighborhoods can be relatively undeveloped. If a security property is located in an area that has one of these characteristics, the appraiser may have to go a considerable distance to find properties that can be used to estimate the value of the security property. On the other hand, if the security property were located in a suburban or urban area, the appraiser would most likely use comparable properties in the immediate vicinity of the property since suburban and urban areas are usually more highly developed and comparable sales typically are available in the subject neighborhood. However, if the security property were located in an area in which there is a shortage of recent truly comparable sales--either because of the nature of the improvements of the subject property or the relatively low number of sales transactions in the neighborhood--the appraiser might need to analyze and use as comparables sales that are not truly comparable to the subject property. This is acceptable as long as the appraiser adequately documents his or her analysis in the appraisal report and explains why such comparables were used. When a security property is located in an urban neighborhood that has vacant or boarded up properties, the appraiser would need to look at comparable properties in the same neighborhood to assure that any effect of the vacant or boarded up properties is taken into consideration in developing the estimate of value for the security property.

To be eligible for purchase or securitization by Fannie Mae, a mortgage must be secured by a property that is residential in nature-- based on the characteristics of the subject property, zoning, and the present land use. We do not purchase or securitize mortgages on agricultural-type properties (such as farms, orchards, or ranches), on undeveloped land, or on land development-type properties.

Lenders must give properties with outbuildings special consideration in their underwriting and appraisal review. Properties with minimal outbuildings--such as a small barn or stable--that are of relatively insignificant value in relation to the total appraised value of the subject property are acceptable if they are typical of other residential properties in the subject area. For example, a property that has a small barn or stable is acceptable if the appraiser demonstrates through the use of comparable sales with similar improvements that the improvements are typical of properties for which an active, viable residential market exists. If the outbuildings do not represent typical residential improvements for the location and property type, the typical purchaser in the market would probably recognize minimal, if any, contributory value for them. A property with an atypical minimal outbuilding is acceptable to Fannie Mae, as long as the appraiser's analysis reflects little (or no) contributory value for it.

On the other hand, the presence of significant outbuildings--such as a large barn, a storage area or facilities for farm-type animals, or a silo--will probably indicate that the property is agricultural in nature. In such cases, the lender must review the property with great care, regardless of whether the appraiser assigns any value to the out- buildings. All properties must be readily accessible by roads that meet local standards, and must have adequate utilities available and in service. The appraiser must also consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Certain aspects of the location of a property will 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. Any property that is not suitable for year-round occupancy--regardless of where it is located--is unacceptable.

### **Section 402.02 - Degree of Development and Growth Rate**

The degree of development of a neighborhood (which is referred to as "built-up" on the appraisal report forms) is the percentage of the available land in the neighborhood that has been improved. The degree of development of an area may indicate whether a particular property is residential in nature. When underwriting mortgages secured by properties located in rural or relatively undeveloped areas, lenders should focus on the characteristics of the property, zoning, and the present land use to determine whether the property should be considered residential in nature. For example, if the typical single-family building site in a particular area (based on the zoning, the highest and best use of the land, and the present land use) is two acres in size, the mortgage 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 neighborhood.

Because we do not purchase or securitize mortgages secured by agricultural-type properties, undeveloped land, or land-development-type properties, the lender must review carefully the appraisal report for properties that have sites larger than those typical for residential properties in the area. Special attention must be given to the appraiser's description of the neighborhood, 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 the neighborhood.

### **Section 402.03 - Property Values**

The appraiser must indicate whether property values in the subject neighborhood are "increasing," "stable," or "declining." Maximum financing is acceptable when property values are stable or increasing. The lender generally must not offer maximum financing in any instance in which property values are declining. However, we do make some exceptions to this policy. For example, we permit maximum financing for "no cash-out" rate/term refinance transactions that involve Fannie Mae-owned or -securitized mortgages even if the property is located in a declining market.

We will also consider granting a waiver of our prohibition against maximum financing in declining markets if the lender can demonstrate that it is (or will be) participating in a focused local redevelopment effort that is designed to infuse capital and provide lending programs as a means of revitalizing or stabilizing a neighborhood in which values are declining. "Focused local redevelopment efforts" must concentrate on a specific neighborhood or community that has been targeted for substantial and coordinated investment activity that is intended to help arrest or reverse declining property values by doing such things as improving the public or private infrastructure, providing increased levels of public services, building new schools or modernizing existing ones, establishing local enterprise zones to encourage business development, offering special housing finance programs, etc. While special housing finance programs (such as those offered by Fannie Mae and others) are an important component of the overall community development, they must not be the only component; the redevelopment effort should also consist of specific non-housing components. The "infusion of capital and lending programs" can come from local, state, or federal government programs that are targeted to specific neighborhoods or communities or from programs that are funded by either the nonprofit sector or public-private partnerships that were created to revitalize a particular neighborhood or community.

To request a waiver of our prohibition against maximum financing in declining markets, a lender must submit its written request to its lead Fannie Mae regional office. The request should include documentation that substantiates the reason the waiver is being requested (including evidence that the mortgaged properties are located in an area that is

undergoing a specific and significant infusion of private and/or public reinvestment as part of a focused local redevelopment effort) and demonstrates that the lender and the governmental and/or private sources are willing partners in actively trying to increase home values in the neighborhood. Focused local redevelopment efforts and the definitions used to determine targeted communities and neighborhoods may be documented in whatever manner the locality uses to obtain the different forms of assistance that are needed to carry out its plans for the effort (for example, an application for a community development block grant, a comprehensive housing assistance strategy plan, etc.). Once we have granted the lender a waiver for a particular local redevelopment effort, the lender may deliver to us maximum financing mortgages located in that community or neighborhood--without having to request an individual waiver for each mortgage.

#### **Section 402.04 - Demand, Supply, and Marketing Time**

An over-supply of housing is not desirable since it indicates that properties are selling slowly with a lot of competition. An over-supply of properties may be a neighborhood-wide or a city-wide problem. In either case, the appraiser must comment on the reason for the over-supply and its effect on the value of the property.

Marketing time is the average time that it takes for a reasonably priced property to sell in the subject neighborhood. When marketing time for a particular area is greater than six months, the appraiser must comment on the reason for the extended marketing period and its effect on the value of the property.

#### **Section 402.05 - Predominant Occupancy**

The appraiser should categorize the predominant occupancy status of the neighborhood--as "owner" or "tenant" and as "vacant (0-5%)" or\* "vacant (over 5%)"--as part of his or her description of the neighborhood.

The fact that the properties in a neighborhood are predominantly owner-occupied or tenant-occupied is a characteristic of the neighborhood that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries. To assure that any effects (positive or negative) of occupancy status will be reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same neighborhood whenever possible. If the appraiser uses as comparables sales that are outside of the subject neighborhood, he or she may need to make "neighborhood" or "location" adjustments to the sales comparison analysis for any sales that are not subject to this same neighborhood characteristic.

#### **Section 402.06 - Price Range and Predominant Price**

The appraiser must indicate the price range and predominant price of properties in the subject neighborhood. The price range must reflect high and low prevailing prices for residential properties that are comparable to the property being appraised (one-family

properties, two- to four-family properties, condominium units, or cooperative units) and, in some cases, for competing properties (one-family properties when the property being appraised is a two- to four-family property or a condominium unit and condominium units when the property being appraised is a cooperative unit). Isolated high and low extremes should be excluded from the range, which means that the predominant price will be that which is the most common or most frequently found in the neighborhood. The appraiser may state the predominant price as a single figure or as a range (if that is more appropriate).

When the subject property has a sales price (or value) that exceeds the upper price range, the property is considered as an "over-improvement" for the neighborhood. The property is considered as an "under-improvement" if its sales price (or value) is less than the lower price range. If the subject property is an over-improvement, the mortgage terms generally should be more conservative because the property may not be acceptable to typical purchasers. The appraiser must explain why the property is an over- or under-improvement and comment on the adjustments that were made in the "sales comparison analysis" adjustment grid to reflect that condition.

The lender should consider whether a property in an urban area is among those being renovated. Since demand for this type of property can be strong, the property should not be regarded as over-improved if there is a strong market interest, which is indicated by the existence of comparable properties.

#### **Section 402.07 - Age Range and Predominant Age**

The appraiser must indicate the age range and predominant age of properties in the subject neighborhood. The age range should reflect the oldest and newest ages for similar types of residential properties (one-family properties, two- to four-family properties, condominium units, or cooperative units) and, in some cases, for competing properties (one-family properties when the property being appraised is a two- to four-family property or a condominium unit and condominium units when the property being appraised is a cooperative unit.) However, isolated high and low extremes should be excluded from the range. The predominant age is the one that is the most common or most frequently found in the neighborhood. The appraiser may state the predominant age as a single figure or as a range (when that is more appropriate). The appraiser should select independently the properties that he or she uses to represent the age range and predominant age, rather than merely relying on the same properties he or she used to illustrate the price range and predominant price.

The age of a property should be within the general age range of the neighborhood. Normally, neighborhoods are developed over a relatively narrow span of time so that most dwelling units will fall within a particular age range. A property that has an age outside of the general age range must receive special consideration. Unless there is strong evidence of long-term neighborhood stability, a new dwelling in an old neighborhood will carry some marginal risk. Conversely, an old dwelling in a newly developed area is generally acceptable if renovation will result in its conforming with the neighborhood.

## **Section 402.08 - Present Land Use**

The appraiser should provide the relative percentages of the developed land in the neighborhood when discussing the present land use in his or her neighborhood analysis, rather than simply referring to the zoning classifications. The appraiser should report separately the percentage of developed single-family sites, developed two- to four- family sites, etc. Undeveloped land should be reported as vacant. In addition, if there is a significant amount of vacant or undeveloped land in the neighborhood, the appraiser should include comments to that effect to assure that he or she adequately describes the neighborhood. If the present land use in the neighborhood is not one of those listed on the appraisal report form--such as parkland--the appraiser must also indicate the type of land use and its related percentage. The total of the types of land uses must equal 100%.

Typically, dwellings best maintain their value when they are situated in neighborhoods that consist of other similar dwellings. However, some factors that are typical of a mixed-use neighborhood--such as easy access to employment centers and a high level of community activity--can actually enhance the market value of the property through increased buyer demand. Viable urban neighborhoods also frequently reflect a blend of single-family residential and non-residential land uses--including residential multifamily properties, other properties that are used to provide commercial services (such as groceries and other neighborhood stores) in support of the local neighborhood, industrial properties, etc.

When different land uses and property types are present in a neighborhood, that fact should be considered a neighborhood characteristic that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries. To assure that any positive or negative effects of the mixed land uses are reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same neighborhood whenever possible. If this is not possible, the appraiser may need to make "neighborhood" or "location" adjustments to the "sales comparison analysis" grid for any sales that are not subject to this same neighborhood characteristic.

## **Section 402.09 - Changes in Land Use**

The appraiser must indicate in his or her neighborhood analysis whether the present land use in the neighborhood is "likely" or "not likely" to change or whether it is "in process" of changing. If the land use is likely to change or is in the process of changing, the appraiser should indicate the anticipated new land use(s). Fannie Mae relies on the present land use, the predominant occupancy composition, and the likelihood that either will change to determine whether a neighborhood is undergoing transition. However, a "neighborhood in transition" description must not be used to refer to the racial or ethnic composition--or the prospective racial or ethnic composition--of a neighborhood. If the appraiser indicates that an area is undergoing transition, he or she should describe the

changes and comment about their effect on the marketability and value of the subject property.

### **Section 402.10 - Competitive Properties**

When the subject property is a two- to four-family property, the appraiser must include in his or her appraisal report listing information about at least three competitive properties from the subject neighborhood, choosing available listings that represent the most current, similar, and proximate competitive properties to the subject property. The listing comparables can be the rental comparables or the sales comparables that are used later in the appraiser's market data analysis (as long as they are currently listed for sale).

Although we do not require it, the appraiser may also provide additional comparisons of properties listed for sale outside of the subject neighborhood if he or she chooses to do so, as long as they are relevant to the analysis. We are primarily concerned about competitive properties that are for sale in the subject neighborhood; therefore, if there are fewer than three competitive properties for sale in that neighborhood, the appraiser should simply state that fact in the "comments" section of the appraisal report form and provide an explanation of why that is the case (for example, because of an undersupply, non-conforming property types, etc.).

The appraiser must provide a narrative comparison of the competitive listings that are comparable to the subject property, describe the general market conditions that affect two- to four-family properties in the subject market area, and identify trends in listing prices, average days on market, and recent changes. The purpose of reporting active listings is to provide support for the primary indicators of market condition (growth rate, property values, demand/supply, and marketing time). The analysis of active listings should be used to evaluate both the inventory of two- to four-family properties currently for sale in the subject neighborhood and competing with the subject property, as well as the recent price and marketing time trends that affect the subject property.

### **Section 403 - Site Analysis**

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, and other amenities. Since amenities, easements, and encroachments may either detract from or enhance the marketability of the site, the appraiser must comment on them if the site is not typical for the neighborhood. If there is market resistance to a property because its site is not compatible with the neighborhood or with the requirements of the competitive market, the lender should underwrite the mortgage more carefully and, if appropriate, require more conservative mortgage terms.

#### **Section 403.01 - Zoning**

The appraiser is responsible for reporting the specific zoning classification for the subject property. The appraiser must include a general statement to describe what the zoning permits--"single-family," "two-family," etc.--when he or she indicates a specific zoning

such as R-I, R-2, etc. The appraiser must also include a specific statement indicating whether the improvements represent a legal use; a legal, but non-conforming (grandfathered) use; or an illegal use under the zoning regulations; or whether there is no local zoning.

We generally will not purchase or securitize a mortgage on a property if the improvements do not constitute a legally permissible use of the land. We do make certain exceptions to this policy, as long as the property is appraised and underwritten in accordance with the special requirements we impose as a condition to agreeing to make the exception:

- We will purchase or securitize a mortgage that is secured by a one- to four-family property or a unit in a PUD project if the property represents a legal, but non-conforming, use of the land--as long as the appraiser's analysis reflects any adverse effect that the non- conforming use has on the value and marketability of the property.
- We will purchase or securitize a condominium unit mortgage or a cooperative share loan from a project that represents a legal, but non-conforming, use of the land only if the improvements can be rebuilt to current density in the event of their partial or full destruction. (In such cases, the mortgage file must include a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density.)
- We will purchase or securitize a mortgage secured by a single- family or a two-family property that includes an illegal additional unit or accessory apartment (which may be referred to as a mother-in-law, mother-daughter, or granny unit) as long as the illegal use conforms to the subject neighborhood and to the market. The property must be appraised in conformity with its legal use, that of a single-family or two-family property (and the borrower must qualify for the mortgage without considering any rental income from the illegal unit). The appraiser must report that the improvements represent an illegal use and demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same illegal use. The lender must also make sure that the existence of the illegal additional unit will not jeopardize any future hazard insurance claim that might need to be filed for the property. We will not purchase or securitize a mortgage secured by a three- or four-family property that includes an illegal accessory apartment.
- We will not purchase or securitize a mortgage 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.)

### **Section 403.02 - Highest and Best Use**

The highest and best use of a site is that reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, be financially feasible, be physically possible, and provide more profit than any other use of the site would generate. All four of these criteria must be met if the improvements are to be considered as the highest and best use of a site.

A strict theoretical highest and best use analysis identifies the perfect improvements for a site--assuming that the site is vacant and available to be developed. The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

On the other hand, if the current improvements clearly do not represent the highest and best use of the site as an improved site, the appraiser must so indicate on the appraisal report. In such cases, we will not purchase or securitize a mortgage that is secured by the subject property.

### **Section 403.03 - Utilities**

For a mortgage to be eligible for purchase or securitization, the utilities of the security property must meet community standards and be accepted generally by area residents. If public sewer and/or water facilities--those that are supplied and regulated by the local government-- are not available, then community or private well and septic facilities must be available and utilized by the subject property. If community facilities are used, the owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Generally, private well or septic facilities must be located on the subject site. However, off-site private facilities are acceptable if the inhabitants of the subject property have the right to access them and if there is an adequate, legally binding agreement for their 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 appraiser must comment on the effect of the hazards on the marketability and value of the subject property.

### **Section 403.04 - Off-Site Improvements**

The appraiser must state the type for any off-site improvements-- streets, curbs/gutters, sidewalks, street lights, and alleys--that are present and indicate whether they are publicly or privately maintained.

The property should front on a publicly dedicated and maintained street that meets community standards and is accepted generally by area residents. If the property is on a community-owned or privately owned and maintained street, there should be an adequate, legally enforceable agreement for maintenance of the street. A street that does not meet city or state standards frequently requires extensive maintenance, and property values may decline if it is not regularly maintained. If a property fronts on a street that is not typical of those found in the community, the appraiser must comment on the effect of that location on the marketability and value of the subject property.

The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom--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 marketability and value of the subject property.

#### **Section 403.05 - The Lot**

The topography, shape, size, and drainage of the lot are all equally important. Steep slopes that cause erosion, difficulty in maintaining a lawn, or difficult access to the property itself or to a garage are generally unfavorable conditions. Drainage must be away from the improvements to avoid the collection of water in or around them.

#### **Section 403.06 - Flood Hazard Area**

The appraiser must indicate on the appraisal report whether or not the property is located in a Special Flood Hazard Area that is identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps (FIRM). These maps include areas that are within the 100-year flood boundary. (Note: The term "100-year flood" does not mean that a flood will occur once in every 100 years, but rather that there is a 1% or greater chance that a flood level will be equal or exceeded in any given year.) The appraiser must also indicate the specific FEMA flood zone and the map number and its effective date.

Flood Insurance Rate Maps (FIRM) can be obtained by contacting FEMA at the following address or telephone numbers. FEMA requires that requests for more than five maps be in writing.

Federal Emergency Management Agency  
Flood Map Distribution Center  
6930 (A-F) San Tomas Road  
Baltimore, MD 21227-6227

1-800-638-6620, for the Continental U.S.;  
1-800-492-6605, for Maryland only;

1-800-638-6831, for Alaska, Hawaii, Puerto Rico, and Virgin Islands.

If the property improvements are located in a Special Flood Hazard Insurance Rate Maps (FIRM). These maps include areas that are within the 100-year flood boundary. (Note: The term "100-year flood" does not mean that a flood will occur once in every 100 years, but rather that there is a 1% or greater chance that a flood level will be equal or exceeded in any given year.) The appraiser must also indicate the specific FEMA flood zone and the map number and its effective date.

If the property improvements are located in a Special Flood Hazard Area--zones A, AE, AH, AO, A1-30, A-99, V, VE, or VI-30--flood insurance is required. If the land is in the hazard area, but the improvements are not, flood insurance is not required.

#### **Section 404 - Improvement Analysis**

The appraiser must provide a clear, detailed, accurate, and comprehensive description of the improvements. The appraiser should be as specific as possible (commenting on such things as needed repairs, additional features, modernization, etc.) and should provide supporting addenda, if necessary.

The description of the improvements should include a general overall description and specific descriptions of the exterior, foundation, basement, insulation, interior surfaces, heating and cooling systems, kitchen equipment, attic, amenities, and car storage. If the property that is being appraised includes an accessory apartment, the appraiser should describe it in the "comments" section of the improvement analysis portion of the appraisal report form.

#### **Section 404.01 - Conformity to Neighborhood**

The improvements should generally conform to the neighborhood in terms of age, type, design, and materials used for their construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or 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 lender should underwrite the mortgage more carefully and, if appropriate, require more conservative mortgage terms. However, the lender should be aware that many older neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. For example, older neighborhoods are especially likely to have been developed through custom building; this variety may be a positive marketing factor.

In the appraisal and underwriting process, special consideration must be given to properties that represent special or unique housing for the subject neighborhood. Non-traditional types of housing--such as earth houses, geodesic domes, log houses, etc.--are eligible for delivery to us, provided the appraiser has adequate information to develop a reliable estimate 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 estimate of market value. This will depend on the extent of the difference between the special or unique property and the more traditional types of houses in the market and the number of such properties that have already been sold in the market area. If recent comparable sales of the same design and appeal are not available, but the appraiser is able to determine sound adjustments for the difference between the comparables that are available and the subject property and to demonstrate the marketability of the property-- based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area and any other reliable market data--the mortgage is acceptable for delivery to Fannie Mae. On the other hand, if the appraiser is not able to find any evidence of market acceptance and the characteristics of the property are so significantly different that he or she cannot establish a reliable estimate of market value, we will not accept the property as security for a mortgage.

We do not specify minimum size or living area requirements for properties. However, dwelling units of any type should contain sufficient living area to be acceptable to typical purchasers or tenants in the subject market area. There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

#### **Section 404.02 - Actual and Effective Ages**

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 will generally have an effective age somewhat lower than its actual age. On the other hand, properties that have an effective age higher than their actual age probably have not been well maintained or may have a particular physical problem. In such cases, the lender must pay particular attention to the condition of the subject property in its review of the appraisal.

(also see section 402.07)

We do not place a restriction on the age of eligible dwellings. Consequently, mortgages on older dwellings that meet our general requirements are acceptable. The improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject market area.

#### **Section 404.03 - Insulation and Energy Efficiency**

Our appraisal report forms provide an area for the appraiser to state the "R" value for insulation if he or she is aware of it and to comment on the adequacy of the insulation. The appraiser should list the additional energy-efficient features in the "comments" area. The appraiser should also compare the energy-efficient features of the subject property to

those of the comparable properties in the "sales comparison analysis" grid to assure that the overall contribution of these items is reflected in his or her estimate of the market value of the subject property.

(also see Section 305)

An energy-efficient property is one that uses cost-effective design, materials, equipment, and site orientation to conserve nonrenewable fuels. Special energy saving items should be recognized in the appraisal process. The nature of these items and their contribution to value will vary throughout the country because of climatic conditions and differences in utility costs.

#### **Section 404.04 - Layout and Floor Plans**

Dwellings with unusual layouts, peculiar floor plans, or inadequate equipment or amenities 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. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, he or she should make appropriate adjustments to reflect this in the overall analysis. On the other hand, if market acceptance can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

#### **Section 404.05 - Unit/Room List**

The Uniform Residential Appraisal Report (Form 1004), and the Individual Condominium Unit Appraisal Report (Form 1073) contain a "room list" section to describe the subject property and provide a column for the square footage per level, as well as space for a summary of the above-grade room count(s) and the above-grade gross living area for the finished area.

The Small Residential Income Property Appraisal Report (Form 1025) contains a "unit/room" list section to describe the subject property and requires the appraiser to indicate the square feet per each unit. The unit/room list section gives the appraiser the flexibility to report the units individually or to report them as a single line entry if they are all equal in size. The total square footage reported in the unit/room list section of Form 1025 should reflect the net rentable area of the property (and, as such, will not necessarily equal the gross building area).

The Individual Cooperative Interest Appraisal Report (Form 1075) does not contain a "room list" section; however, it provides space for the appraiser to indicate a summary of both the finished area "above grade" and the finished area "below grade"--breaking it down by total rooms, bedrooms, baths, and square feet of gross living area.

#### **Section 404.06 - Gross Living Area**

The most common comparison for single-family properties (including units in PUD, condominium, or cooperative projects) is above-grade gross living area. The appraiser must be consistent when he or she calculates and reports the finished above-grade room count and the square feet of gross living area that is above-grade. For units in condominium or cooperative projects, the appraiser should use interior perimeter unit dimensions to calculate the gross living area. In all other instances, the appraiser should use the exterior building dimensions per floor to calculate the above-grade gross living area of a property. Only finished above-grade areas should be used-- garages and basements (including those that are partially above-grade) should not be included. We consider 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 basement with finished rooms would not be included in the above-grade room count.

Rooms that are not included in the above-grade room count may add substantially to the value of a property--particularly when the quality of the "finish" is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the "basement and finished areas below-grade" line in the "sales comparison analysis" grid. To assure consistency in the sales comparison analysis, the appraiser generally should compare above-grade areas to above-grade areas and below-grade areas to below-grade areas. The appraiser may deviate from this approach if the style of the subject property or of any of the comparables does not lend itself to such comparisons. However, in such instances, he or she must explain the reason for the deviation and clearly describe the comparisons that were made.

#### **Section 404.07 - Gross Building Area**

Gross building area, which is the total finished area (including any interior common areas, such as stairways and hallways) of the improvements based on exterior measurements, is the most common comparison for two- to four-family properties. The gross building area must be consistently developed for the subject property and all comparables that the appraiser uses. It should include all finished above- and below-grade living areas, counting all interior common areas (such as stairways, hallways, storage rooms, etc.) but not counting exterior common areas (such as open stairways).

We will accept the use of other comparisons for two- to four-family properties (such as the total above-grade and below-grade areas as discussed above in Section 404.06), as long as the appraiser explains the reasons he or she did not use a gross building area comparison and clearly describes the comparisons that were made.

#### **Section 404.08 - Infestation, Dampness, or Settlement**

If the appraiser indicates that there is evidence of wood-boring insects, dampness, or settlement, he or she must comment on its effect on the marketability and value of the subject property. The lender must provide either satisfactory evidence that the condition was corrected or submit a professionally prepared report, which indicates that--based on

an inspection of the property--the condition does not pose any threat of structural damage to the improvements.

## **Section 405 - Property Condition and Appraiser Comments**

Based on the factual data of the improvement analysis, the appraiser must express an opinion about the condition of the improvements. The appraiser must report the condition of the improvements in factual, specific terms. Any condition that may affect the value or marketability of the subject property must be reported to assure that the appraiser adequately describes the property. The appraiser must report a detrimental condition of the improvements even if that condition is also typical for competing properties. For instance, the appraiser should note if a property is characterized by deferred maintenance or a lack of updating even if the same condition applies to competing properties in the neighborhood.

### **Section 405.01 - Remaining Economic Life**

Because our appraisal report forms are designed to meet the needs of several different user groups, they address the remaining economic life for the property being appraised. For mortgages that will be delivered to us, the appraiser does not need to report the remaining economic life. Even if the appraiser does report this information, the lender does not need to consider it because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvement analysis and comments on the condition of the property. Fannie Mae has no requirements that the mortgage term have any correlation to the remaining economic life of the property.

### **Section 405.02 - Appraiser's Comments**

The appraiser must address any needed repairs or any physical, functional, or external inadequacies in the "Comments" section. In addition, the appraiser must address adverse environmental conditions (such as, but not limited to, hazardous wastes, toxic substances, etc.) that are present in the improvements, on the site, or in the immediate vicinity of the subject property in the space provided for that purpose.

## **Section 406 - Valuation Analysis**

The valuation section of our appraisal report forms enables appraisers to develop and report in concise format an adequately supported estimate of market value--based on the cost, sales comparison, and income approaches to value, and, in the case of small residential income properties, on comparable rental data. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, he or she should provide additional supporting data in an addendum to the appraisal report form.

### **Section 406.01 - Cost Approach**

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property that is being appraised. This approach, then, measures value as a cost of production. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

Since units in condominium and cooperative projects are integral parts of the total project, the cost approach is generally impractical for estimating the value of any given unit; therefore, the appraiser does not have to consider the cost approach when appraising these units. The cost approach can be a good indicator of value for newer or renovated properties that are one- to four-family residences, or detached, semi-detached, or townhouse type units in PUD projects. However, as the effective age of a property increases, the reliability of the cost approach may decrease because the depreciation estimates may be subjective. Appraisers should use their best judgment regarding the applicability of the cost approach when the property being appraised is an older property. If the appraiser does not use the cost approach in such cases, he or she must explain why it was not used and provide an estimated site value.

We will not accept appraisals that rely solely on the cost approach as an indicator of market value.

**A. Determining the indicated value.** There are three principal types of depreciation--physical, functional, and external--that the appraiser must consider:

Physical depreciation--traditionally referred to as physical deterioration--is a loss in value that is caused by deterioration in the physical condition of the improvements. Appraisers classify physical deterioration as "curable" or "incurable." Curable physical deterioration refers to items of deferred maintenance--for example, painting or items currently in need of repair (such as broken stair rails). Incurable physical deterioration refers to other items that currently are not practical or feasible to correct--for example, furnaces or roof shingles that have not reached the end of their economic life.

Functional depreciation--traditionally referred to as functional obsolescence--is a loss in value that is caused by defects in the design of the structure--for example, inadequacies in such items as architecture, floor plan, or sizes and types of rooms. It also can be caused by changes in market preferences that result in some aspect of the improvements being considered obsolete by current standards-- for example, the location of a bedroom on a level with no bathroom, or access to a bedroom only through another bedroom.

External depreciation--traditionally referred to as economic obsolescence--is a loss in value that is caused by negative influences that are outside of the site, such as economic factors or environmental changes--for example, shopping centers, expressways, or factories that are adjacent to the subject property.

The appraiser arrives at the indicated value of a property by estimating the reproduction cost of new improvements, subtracting the amount of depreciation from all causes, and

adding an estimate of the value for the site if it were vacant and available to be developed to its highest and best use. The reproduction cost estimate should reflect the cost of construction based on the current prices of producing a replica of the property being appraised--including all of its positive and negative characteristics. Although the construction materials used for the estimate should be as similar as possible to those used for the subject property, they do not have to be exactly the same.

If the appraiser's estimate of the value for the site is one that is not typical for a comparable residential property in the subject neighborhood, he or she must comment on how the variance affects the marketability of the subject property.

**B. Appraiser's comments and adjustments.** In reviewing the appraisal report, the lender should make sure that the appraiser's analysis and comments in the cost approach are consistent with comments and adjustments mentioned elsewhere in the report. For example, if the neighborhood or site description reveals that the property backs up to a shopping center, the lender should expect to see an adjustment for external depreciation in the cost approach. Similarly, if the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, the lender should expect to see an adjustment for functional depreciation.

#### **Section 406.02 - Comparable Rental Data**

In developing the valuation for a two- to four-family investment property, the appraiser must analyze the most current and most comparable rental properties that are available to develop an estimated market rent for the subject property. The appraiser must report and analyze at least three rental comparables (which do not have to be the same comparables used in the sales comparison analysis). The appraiser should reconcile the comparable rental data and provide support for the estimated market rents for the individual subject units, providing information about lease dates, number of vacant units, actual rents, and estimated market rents for the subject property. The appraisal report should assure the lender that the units and properties selected as comparables are comparable to the subject property (in terms of both the units and the overall property) and accurately represent the rental market for the subject property, unless the appraiser states otherwise in the report.

#### **Section 406.03 - Sales Comparison Approach**

The sales comparison approach to value--traditionally referred to as the market data approach--is an analysis of comparable sales, contract offerings, and current listings of properties that are the most comparable to the subject property. However, we require the appraiser to report only the comparable sales in the appraisal report. The appraiser's analysis of a property must take into consideration all factors that have an impact on value, recognizing that a well-informed or well-advised purchaser will pay no more for a property than the price he or she would pay for a similar property of equal desirability and utility if it were purchased without undue delay. To accomplish this, the appraiser must analyze the closed or settled sales, the contract sales, and the current listings of properties that are the most comparable to the subject property. This is particularly

important in soft or declining markets because the competing current listings and contracts probably reflect the upper-end of value for the subject property as of the effective date of the appraisal, and we expect appraisers to accurately report and reflect market conditions as of that date.

The comparable market data must be verified, analyzed, and adjusted for differences between the comparable properties and the subject property. Because the appraiser's estimate of market value is no better than the reliability of the comparable data that is used, the appraiser must exercise due diligence to ensure the reliability of the comparable sales data that he or she uses. The appraiser must report his or her data and/or verification source(s) for each comparable sale on the appraisal report form. An appraiser may use a single source for the data and verifications or multiple sources if they are needed to adequately verify the comparable sales. The quality of the data available varies from source to source and from one locality to another. In view of this, a single data source may be adequate if the appraiser uses a source that provides quality sales data that is confirmed or verified by closed or settled transactions. On the other hand, if the appraiser's basic data source does not confirm or verify the sales data, the appraiser will need to use additional sources. When comparable sales data is provided by a party that has a financial interest in either the sale or financing of the subject property, the appraiser must re-verify the data with a party that does not have a financial interest in the subject transaction.

**A. Selecting the comparables.** The appraiser must report a minimum of three comparable sales as part of the sales comparison approach. The appraiser may submit more than three comparable sales to support his or her estimate of market value, as long as at least three are actual settled or closed sales. Generally, the appraiser should use comparable sales that have been settled or closed within the last 12 months. However, the appraiser may use older comparable sales as additional supporting data if he or she believes that it is appropriate. The appraiser must comment on the reasons for using any comparable sales that are more than six months old. In addition, the appraiser may use the subject property as a fourth comparable sale or as supporting data if the property previously was sold (and closed or settled). If the appraiser believes that it is appropriate, he or she also may use contract offerings and current listings as supporting data.

For properties that are in established subdivisions or for units in established condominium or PUD projects (those that have resale activity), the appraiser should use comparable sales from within the same subdivision or project as the subject property if there are any available. Resale activity from within the subdivision or project should be the best indicator of value for properties in that subdivision or project. If the appraiser uses sales of comparable properties that are located outside of the subject neighborhood, he or she must include an explanation with the analysis.

For properties in new subdivisions or for units in new (or recently converted) condominium or PUD projects, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new

developments and the properties within them. Generally, the appraiser should select one comparable sale from the subject subdivision or project and one comparable sale from outside the subject subdivision or project. The third comparable sale can be from inside or outside of the subject subdivision or project, as long as the appraiser considers it to be a good indicator of value for the subject property. In selecting the comparables, the appraiser should keep in mind that sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project as long as the developer or builder of the subject property is not involved in the transactions.

Because rural properties often have large lot sizes and rural neighborhoods can be relatively undeveloped, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. This means that the appraiser will often need to select comparable sales that are located a considerable distance from the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value for the subject property. The appraiser should include an explanation of why the particular comparables were selected in his or her analysis.

**B. Adjustments to comparable sales.** Each comparable sale that is used in the sales comparison approach must be analyzed for differences and similarities between it and the property that is being appraised. The appraiser must make appropriate adjustments for location, terms and conditions of sale, date of sale, and the physical characteristics of the properties. "Time" adjustments must be representative of the market and should be supported by the comparable sales whenever possible. The adjustments must reflect the time that elapsed between the contract date (or the date of the "meeting of the minds") for the comparable sale and the effective date of the appraisal for the subject property.

Comparable sales must be adjusted to the subject property--except for sales and financing concessions, which are adjusted to the market at the time of sale. The subject property is the standard against which the comparable sales are evaluated and adjusted. Thus, if an item in the comparable property is superior to that in the subject property, a negative adjustment is required to make that item equal to that in the subject property. Conversely, if an item in the comparable property is inferior to that in the subject property, a positive adjustment is required to make that item equal to that in the subject property. The proper selection of comparable properties minimizes both the need for, and the size of, any dollar adjustments. Occasionally, there may be no similar or truly comparable sales for a particular property--because of the uniqueness of the property or other conditions. In such cases, the appraiser must use his or her knowledge and judgment to select comparable sales that represent the best indicators of value for the subject property and to make adjustments to reflect the actions of typical purchasers in that market. Dollar adjustments must reflect the market's reaction to the difference in the properties, not necessarily the cost of the difference. Swimming pools, electronic air filters, intercom systems, elaborately finished basements, carpets, and other special features generally do not affect value to the extent of their cost.

We have established guidelines for the net and gross percentage adjustments that underwriters may rely on as a general indicator of whether a property should be used as a comparable sale. Generally, the dollar amount of the net adjustments for each comparable sale should not exceed 15% of the sales price of the comparable. When the adjustments exceed 15%, the appraiser must comment on the reasons for not using a more similar comparable. Further, the dollar amount of the gross adjustments for each comparable sale should not exceed 25% of the sales price of the comparable. The amount of the gross adjustment is determined by adding all individual adjustments without regard to the positive or negative adjustments. When the adjustments exceed 25%, the appraiser must comment on the reasons for not using a more similar comparable.

Individual adjustments that are excessively high should be explained by the appraiser and reviewed carefully by the lender's underwriter. In some circumstances, the use of comparables with higher-than-normal adjustments may be warranted, but the appraiser must satisfactorily justify his or her use of them.

The appraiser must research the market and select the most comparable sales that are available for the subject property, and then adjust them to reflect the reaction of the market to the differences (except for sales and financing concessions) between the comparable sales and the subject property, without regard for the percentage or amount of the dollar adjustments. If the appraiser's adjustments do not fall within our net and gross percentage adjustment guidelines, but the appraiser believes that the comparable sales used in the analysis are the best available, as well as the best indicators of value for the subject property, the appraiser simply has to provide an appropriate explanation. 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 general market area, the lender's underwriter must review the property carefully.

**C. Unadjusted units of comparison.** For two- to four-family properties, the appraiser must report certain unadjusted units of comparison for the subject property and the comparable sales--the sales price per gross building area, the sales price per unit, and the sales price per room. Because purchasers of small residential income properties may rely on these unadjusted units of comparison, the appraiser should consider them in his or her analysis and reconciliation if they are relevant to the typical purchaser's motivation in the subject market area.

**D. Sales comparison analysis adjustment grid.** The lender's underwriter should review thoroughly the "sales comparison analysis" adjustment grid. Because the sales comparison analysis provides many places in which an error can be made in the use of dollar adjustments, the lender should spot check the positive and negative adjustment calculations.

The underwriter should pay particular attention to the following items. Because a substantial variance raises questions about the validity of using a specific comparable sale, the appraiser should address the reason for a variance.

*1. Proximity to subject property and location.* The description of the proximity of the comparable to the subject property must be specific (e.g., two blocks south). Whenever possible, the appraiser should use comparable sales in the same neighborhood as the subject property because the sales prices of comparable properties in the neighborhood should reflect the same positive and negative locational characteristics.

*2. Sales price.* The sales price of each comparable sale should be within the general range of the estimate of market value for the subject property. A \$100,000 comparable sale for a \$75,000 subject property would raise questions about the validity of the comparable.

*3. Sales or financing concessions.* The dollar amount of sales or financing concessions paid by the seller must be reported for the comparables if the information is reasonably available. Generally, sales or financing data for comparable sales--such as the mortgage amount, loan type, interest rate, term, and any fees or concessions the seller paid--is available. The appraiser should obtain this information from an individual who was a party to the comparable transaction (the broker, buyer, or seller) or from a data source that the appraiser considers to be reliable. We recognize that there may be some situations in which sales or financing information is not available because of legal restrictions or other disclosure-related problems. In such cases, the appraiser must explain why the information is not available--however, we will not accept an explanation that indicates that the appraiser did not make an effort to verify the information. In all other cases, the appraiser must provide the sales and financing concession information that was available (and verified) for the comparables. If the appraisal report form does not provide enough space to discuss this information, the appraiser should make adjustments for the concessions on the form and explain them in an addendum to the appraisal report.

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 condominium or PUD, or cooperative fees or assessment charges; refunds of (or credit for) the borrower's expenses; absorption of monthly payments; assignment of rent payments; and the inclusion of non-realty items in the transaction. The amount of the negative adjustment to be made to each comparable with sales or financing concessions is 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 adjustments and the amount of the adjustments to the comparables for sales and financing concessions are not based on how typical the concessions might be for a segment of the market area--large sales 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 mechanical, 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. We recognize that the effect of the sales concessions on sales prices can vary with the amount of the concessions and differences in various markets. The adjustments must reflect the difference between what the comparables actually sold for with the sales 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.

Positive adjustments for sales or financing concessions are not acceptable. For example, if local tradition 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 should recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparables if they are the best indicators of value for the subject property. Such sales can also be useful to the appraiser in determining those costs that are normally paid by sellers as the result of tradition or law in the market area.

*4. Date of sale/time adjustment.* We will accept more than three comparable sales as part of the appraisal report, but at least three of them must be actual settled or closed sales. The appraiser should provide the date of the sales contract and the settlement or closing date for each comparable sale. Unless the appraiser believes that the exact date is necessary to understand the adjustments, only the month and year of the sale need to be reported. If the appraiser does not report both the contract date and the settlement or closing date, he or she must identify the reported sale date as either the "contract date" or the "settlement or closing date." If the appraiser reports the contract date only, he or she must state whether the contract resulted in a settlement or a closing.

*5. Above-grade room count and gross living area.* Only finished above- grade areas should be included in the calculation of the gross living area for a single-family property or a unit in a condominium or PUD project. The appraiser should report the basement and other partially below-grade areas separately and adjust for them accordingly. The room count and gross living area should be similar for the subject property and all comparables. For example, a four bedroom comparable sale generally is not acceptable to support the value of a two bedroom subject property. The appraiser must address large differences between the subject property and the comparable sales since they raise doubts about the validity of the comparables as good indicators of value.

*6. Over-improvements.* In some instances, the improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range-- such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements. The appraiser must comment on such over-improvements and indicate their contributory value in the "sales comparison analysis" adjustment grid.

Because an over-improved property may not be acceptable to the typical purchaser, the lender's underwriter must review appraisals on this type of property carefully to ensure that the appraiser has reflected only the contributory value of the over-improvement in his or her analysis.

**E. Appraiser's comments and indicated value.** The appraiser's analysis for a property should include narrative comments about any prior sales of the subject property and the comparable sales that took place in the 12 months preceding the effective date of the appraisal report, as well as about any current agreement of sale, option, or listing of the subject property. The appraiser's comments should also reflect his or her reconciliation of the adjusted (or indicated) values for the comparable sales and identify the comparable(s) that were given the most weight in arriving at the indicated value for the subject property. For two- to four-family properties, the appraiser should also provide an evaluation of the typical purchaser's motivation for purchasing the property and an analysis of any current agreement of sales, option, or listing for the subject property.

#### **Section 406.04 - Income Approach**

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. Its use generally is appropriate in neighborhoods of single-family properties when there is a substantial rental market, and it can be an important approach in the valuation of a two- to four-family property. However, it generally is not appropriate in areas that consist mostly of owner-occupied properties since adequate rental data generally does not exist for those areas. We will not accept an appraisal if the appraiser relies solely on the income approach as an indicator of market value.

To arrive at the indicated value by the income approach, the appraiser multiplies the total gross estimated monthly market rent for the subject property by a reconciled gross monthly rent multiplier. (Because of the way value is estimated under the income approach, this approach provides a reliable indication of value only if the comparable sales are truly comparable.)

- Estimated market rent is based on an analysis of comparable rentals in the neighborhood. After appropriate adjustments are made to the comparables, their adjusted (or indicated) values are reconciled to develop an estimated monthly market rent for the subject property.
- The gross rent multiplier is determined by dividing the sales prices of comparable properties that were rented at the time of sale by their monthly market rent, which is then reconciled to create a single gross rent multiplier (or a range of multipliers) for the subject property.

Appraisers must use their best judgment regarding the applicability of the income approach. An instance in which the income approach may not be an appropriate indicator of value involves the appraisal of a two-family property in a neighborhood that is dominated by two-family properties that are owner-occupied. In such cases, the appraiser does not need to develop a gross monthly rent multiplier, but must report the estimated market rent for the subject property. In such cases, the appraiser should provide an appropriate explanation of why he or she chose to report in this manner.

(also see Part VI, Chapter 3)

When the property being appraised is a single-family property that will be used as an investment property, the appraiser must prepare a Single-Family Comparable Rent Schedule (Form 1007) in addition to the appropriate appraisal report form. This form is not required for a two- to four-family property since the Small Residential Income Property Appraisal Report (Form 1025) provides substantially the same information. When the appraiser is relying on the income approach, he or she should attach the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier, as an addendum to the appraisal report form.

### **Section 407 - Final Reconciliation**

The reconciliation process that leads to the estimate of market value is an on-going process throughout the appraiser's analysis. In the final reconciliation, the appraiser must reconcile the reasonableness and reliability of each approach to value and the reasonableness and validity of the indicated values and the available data, and then must select and report the approach or approaches that were given the most weight. The final reconciliation must never be an averaging technique.

If the appraiser has provided a comprehensive and logical analysis of the neighborhood and the property, the lender's underwriter should be able to reach a sound conclusion on the adequacy of the property as security for the mortgage.