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## PROVIDENT BANK MORTGAGE

DIVISION OF PROVIDENT SAVINGS BANK, F.S.B.

### APPRAISAL UNDERWRITING GUIDELINES FOR 1-4 RESIDENTIAL UNITS

Annual Effective Date: November 2015

#### OVERVIEW

In December of 2010, the Federal Reserve Board, Office of the Comptroller of the Currency, Federal Deposit Insurance Corporation, Office of Thrift Supervision and the National Credit Union Administration (“Agencies”) issued new Interagency Appraisal and Evaluation Guidelines. Provident Savings Bank, F.S.B. in adopting these guidelines issued the Bank’s Appraisal Policy ratified by the Board of Directors on September 24, 2013.

This Appraisal Underwriting Guideline for 1-4 Residential Units is provided as a supplement to the Bank’s Appraisal Policy.

Appraisals completed for Provident Bank Mortgage (PBM) are used by underwriters to evaluate the collateral and comparable properties used to secure the mortgage. Appraisals are also reviewed by the investors who purchase our loans. The appraisal report should be complete, giving an estimate of market value (as is) and an insight into the economic and physical characteristics of the subject property and surrounding areas. **Specific program summaries should be reviewed for any additional requirements.**

The following are general considerations in the review of Appraisal Reports:

- The appraisal report must comply fully with the Code of Professional Ethics and Standards of Professional Conduct of the Appraisal Organizations with whom the Appraiser is affiliated and those of the Uniform Standards of Professional Appraisal Practice (USPAP).
- B. All appraisals must be completed by a Certified Appraiser. A review by a licensed or certified Appraiser will not be acceptable in lieu of the initial Appraiser being licensed or certified. Enhanced Desk Reviews, Field Reviews and Appraisals on properties with a value of one-million and over require the Appraiser to have a Certified Residential (AR) license level.

- C. The Appraiser, in addition to completing the report, must have personally inspected the subject property and must certify, among other things listed in the Appraisers Certification Section of the Uniform Residential Appraisal Report (URAR 1004/70), that:
- I have knowledge and experience in appraising this type of property in this market area (Appraiser's Certification #11).
  - I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located
- D. PBM will maintain a panel of appraisers to be used in the appraiser selection process or may use a designated Appraisal Management Company (AMC) to complete the selection process. All appraisals completed are subject to reviews as listed in the review guidelines of this policy.
- E. Provident Bank Mortgage has established an Appraisal Administration Department that is responsible for selecting, retaining, and providing compensation for Conventional & FHA Loan Appraisers for our Retail Loan Operations.
- F. PBM has established an account with an Appraisal Management Company (AMC) whom is responsible for selecting, retaining and providing compensation for Conventional & FHA Loan Appraisals for our Wholesale Loan Operations. All appraisals completed are subject to reviews as listed in the review guidelines of this policy. (modified November 2009)
- G. Effective April 1, 2011, all mortgage credit transactions secured by a principal dwelling must be in compliance with the Federal Reserve Board's interim final rule implementing the valuation independence provisions of the Dodd-Frank Reform Act. The interim final rule added new Section 226.42 to Regulation Z. In publishing the interim final rule, the Home Valuation Code of Conduct (HVCC), the current standard for loans purchased by Fannie Mae and Freddie Mac, will expire on April 1, 2011. New Appraiser Independence Requirements issued by Fannie Mae and Freddie Mac in coordination with the Federal Housing Finance Agency are included as an addendum to this policy.
- H. All Government Appraisal will be compliant with Mortgagee Letter 2009-28 that will reiterate the importance of appraiser independence, and advises of new requirements regarding who is eligible to request an appraisal from an FHA Roster Appraiser. Additional information on this guideline is provided below under Appraiser Independence. The new requirements set forth in this mortgagee letter will be effective for all case numbers assigned on or after January 1, 2010

#### PBM – APPRAISAL ADMINISTRATION DEPARTMENT

Provident Bank Mortgage has formed an Appraisal Administration Department. This department has been primarily established to ensure Appraiser Independence and will be overseen by the Loan Administration Manager. The department and its employees are independent from the loan

Appraisal Underwriting Guidelines  
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production staff and loan operations.

Review appraisals may be performed by licensed appraisers from the AMC or PBM's panel of appraisers. Selection and Management of appraisers for the panel of appraisers will be handled by the PBM Appraisal Management or the designated AMC, whom are appropriately trained and qualified in the area of real estate appraisals.

Appraisers found to participate in unethical or illegal conduct, substandard performance, improper or unprofessional behavior or other substantive reason will be removed from the appraiser panel and provided with written evidence of the unacceptable conduct. Examples of unacceptable conduct include violations of the Uniform Standards of Professional Appraisal Practice (USPAP) or state licensing standards.

Appraisers may be removed from PBM's panel of approved appraisers for administrative reasons related to licensing, performance, quality related issues or an unacceptable rating from a PBM investor. These administration functions are outside the realm of appraiser misconduct that would require reporting with appropriate state licensing authorities.

Please see the Compliance Section of PBM's Procedure Manual for additional information on the Appraiser Approval and Administrative Process.

#### VENDOR MANAGEMENT PROCESS – AMC

The Office of the Comptroller of the Currency (OCC) requires the bank to have a process for insuring that any services performed by a third party comply with applicable laws and regulations consistent with supervisory guidance.

Provident Bank Mortgage has established an Appraisal Management Company (AMC) review process to meet the regulatory guidelines of OCC Bulletin 2010-42 and OCC Bulletin 2013-29.

PBM will document the annual and periodic assessments of the arrangements with the AMC for compliance with applicable regulations and consistency with supervisory guidance and its performance standards. The annual process documented in detail by a review worksheet has been developed to address, each one of the following items:

1. The agreement between the Bank and AMC defines responsibility and accountability roles, such as:
  - a. The scope of the relationship;
  - b. A clear definition of responsibilities, accountability roles and service level objectives;
  - c. Provides the banks right to audit the third party as needed to monitor performance, including specific rights to obtain documentation of the resolution of any deficiencies and to inspect the processing facilities and operating practices of the AMC.
  - d. Requires the AMC's to provide annual audited financial statements at least annually, and quarterly financial statements upon request;

- e. Requires the AMC's to provide internal and external audits, SAS70 reviews and security reviews (as available);
  - f. The AMC's responsibility to provide production reports, operational procedures to ensure they have the structure that allows them to maintain compliance with all regulatory agencies while providing contracted services.
  - g. The AMC's conformity to generally accepted appraisal standards.
2. A review of the AMC's financial condition and business reputation;
    - a. Obtain financial reports (audited if available);
    - b. CFO to conduct a comprehensive review and provide acceptance or additional review requirements. Additional monitoring of financial condition will be required when risk is high or moderate and increasing;
    - c. PBM to conduct a due diligence review to include:
      - i. Business reputation, complaints and litigation by checking references with the State, BBB and Consumer Affairs.
      - ii. Internal controls environment and adequacy of management information systems.
      - iii. Business resumption, continuity, recovery and contingency plans;
      - iv. Technology recovery testing efforts.
  3. A review of the AMC's polices and procedures to ensure:
    - a. The AMC's appraisal fees are customary and reasonable;
    - b. The AMC's polices follow Appraisal Independence Requirements;
    - c. The AMC selects an appraiser or a person to perform an evaluation who is competent and independent, has the requisite experience, and training for the assignment, and thorough knowledge of the subject property's market; and
    - d. That the engagement letter communicates to the appraiser the intended use of the appraisal or evaluation and that the regulated institution is the client.
  4. Documentation of AMC vendor review program. PBM will properly retain information to support its oversight program, which includes:
    - a. Completion of the AMC – Vendor Management Checklist (covering the items noted above);
    - b. Production totals by appraiser assignment;
    - c. Report cards and additional review process will be requested and performed on appraisers that provides a significant proportion of the appraisal production for any given review period.

The process will be conducted on an annual basis. Documentation in support of each annual review will be retained in the Appraisal Administration Department.

### ORDERING AND ACCEPTING APPRAISALS

The following guidelines must be used when ordering or accepting a Conventional or FHA loan appraisal request:

- A. Authorized PBM's Appraisal Administration Department personnel or designated AMC will select and retain an Appraiser directly from a panel of

appraisers. The appraiser selection process is based on appraisers that have clear experience in the geographic area where the subject property is located.

- B. The bank or designated AMC will be responsible for providing payment of all compensation to the appraiser. Compensation for provided services will not be withheld for any reason. Orders and payments for appraisals will not be based upon a valuation to be reached or on a preliminary value estimate request from an appraiser.
- C. The bank will not accept an appraisal prepared by any appraisal report completed by an appraiser selected, retained, or compensated in any manner by any other third party (including mortgage brokers and real estate agents).
- ~~D.~~ The Seller (Bank or Investor) may deliver to Fannie Mae or Freddie Mac a conventional Mortgage with an appraisal prepared by an appraiser selected by another lender, including where a Mortgage Broker has facilitated the Mortgage application (but not ordered the appraisal). The Seller (Bank or Investor) delivering the loan to Fannie Mae or Freddie Mac makes all representations and warranties to Fannie Mae or Freddie Mac regarding the appraisal set forth in the Fannie Mae Mortgage Selling and Servicing Contract or Freddie Mac Seller's Purchase Documents, the Selling Guide and related documents, including the representation that the appraisal is obtained in a manner consistent with these Appraiser Independence Requirements

### ECO A VALUATIONS RULE

The new ECOA Valuations Rule amends the appraisal provisions of ECOA's Regulation B. It updates current ECOA rules to say that you must provide applicants for first-lien loans on a dwelling with copies of appraisals, as well as other written valuations, developed in connection with the application, whether or not the applicants request copies. You must follow the ECOA Valuations Rule for applications received on or after January 18, 2014.

Applies to: Applications for closed-end or open-end credit secured by a first lien on a dwelling, including: loans for business purposes and loss-mitigation transactions.

It does not apply to second other subordinate loans and loans that are not secured by a dwelling.

An appraisal or other valuation is:

- ✓ An Appraisers Report;
- ✓ A document prepared by a staff member that assigns value to the property;
- ✓ A report approved by a government-sponsored enterprise for describing an estimate developed by a proprietary methodology;
- ✓ Automated valuation model reports used to estimate the property's value;
- ✓ A brokers price opinion;

Internal documents that merely restate the estimate value and government agency statements of appraised value that are publicly available are not considered a valuation. In addition, an appraisal review that does not itself state a different estimate from the appraisal would be a

valuation you must provide to the applicant.

To comply with the ECOA Valuations Rule:

“ PBM must notify the applicant in writing within three business days of application of the right to receive a copy of any appraisal developed in connection with the application.

“ If you have an application that was **not** originally going to be secured by a first lien on a dwelling and you later determine that **it will** be secured by a first lien on a dwelling, then you have three business days after you determine the change has occurred to notify the applicant about the right to receive appraisals.

“ When processing an application for a closed-end loan, PBM must deliver copies of appraisals and other written valuations “promptly upon completion,” or three business days before consummation, whichever is earlier. For example, if a loan will close on Friday, April 4, you must deliver the valuation no later than Tuesday, April 1.

“ When processing an application for an open-end loan, PBM must deliver copies of appraisals and other written valuations “promptly upon completion,” or three business days before account opening, whichever is earlier.

“ PBM cannot charge the applicant for copies of any appraisal or written valuation you provide; however, you can charge a reasonable fee to reimburse the cost of the appraisal or other written valuation if not otherwise prohibited by law.

For applicants who waive the right to receive the required copies at least three business days before consummation or account opening, PBM must provide the copies either at, or prior to, consummation (loan signing).

“ If the loan does not consummate and the applicants has provided a waiver, PBM has 30 days after it is determined that the loan will not consummate to send the applicant a copy of the appraisal and other written valuation.

If the loan is a closed-end, higher-priced transaction, PBM must also determine whether it is covered by the TILA appraisal requirements in the Appraisals for Higher-Priced Mortgage Loans Rule (HPML Appraisal Rule) under Regulation Z.

The sample notice contained in an appendix to Regulation B states:

“We may order an appraisal to determine the property’s value and charge you for this appraisal. We will promptly give you a copy of any appraisal, even if your loan does not close. You can pay for an additional appraisal for your own use at your own cost.”

## APPRAISAL REPORT OVERVIEW

### PROPERTY ADDRESS

As part of the standardization process, Fannie Mae and Freddie Mac require that the subject property

address is confirmed with the United States Postal Service. This includes the use of standard address-related abbreviation tables as recommended by the U.S. Postal Service. The address entered on the loan application, used throughout the automated underwriting system (AUS) and appraisal report must conform to the USPS standards.

The legal address of the property and any supporting statements may be included in the addendum of the appraisal report. For properties without USPS confirmation, the tax authority address or preliminary title address supplemental should be used.

### SCOPE of APPRAISAL

The appraiser must determine an appropriate scope of work that should be performed to produce “credible assignment results”. Credible assignment results depend on the scope of work meeting or exceeding:

- The expectation of parties who are regularly intended users for similar assignments; and
- What an appraiser peer's actions would be in performing the same or similar assignment?

The appraiser’s analysis should go beyond the limitations of appraisal forms, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process or support the appraiser’s conclusions. The extent of the appraiser’s data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

Provident Bank Mortgage is responsible to ensure that the appraiser’s scope of work under USPAP is appropriate for the transaction.

### VALUATION APPROACH

The appraisal report enables appraisers to develop and report an estimate of market value based on three approaches:

- **Cost Approach Value – (UPDATE 08/07/2015)**  
Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary for credible assignment results, then the cost approach must be provided. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

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



If the appraiser has completed the cost approach, the Underwriter must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report. For example, if the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an amount indicated for external depreciation in the cost approach. Or, if the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, Underwriters should expect to see an amount indicated for functional depreciation.

- Sales Comparison Approach

Underwriter to complete the Appraisal Checklist-Conventional (in forms)

- Income Approach – (UPDATED 08/07/2015)

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

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. If the appraiser has completed the income approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with comments mentioned elsewhere in the report.

### Valuation Analysis and Reconciliation (08/07/2015)

#### Overview:

The valuation sections of Fannie Mae's appraisal report forms enable an appraiser to develop and report, in a concise format, an adequately supported opinion of market value based on the cost, sales comparison, and income approaches to value, as applicable. If the appraiser believes that additional information needs to be provided because of the

uniqueness of the property or some other condition, he or she should provide additional supporting data in an addendum to the appraisal report form.

#### Reconciliation:

In the Reconciliation section of the appraisal report form, the appraiser considers the reliability and applicability of each of the approaches to value that was utilized in the appraisal report. After consideration of each of the approaches to value, the appraiser will provide his or her final value opinion. In the Reconciliation section, appraisers must

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

The reconciliation is based on the appraiser's judgment of the results developed as part of the valuation process and must never be an averaging technique with the exception of the use of a weighted average technique that includes proper explanation. The final reconciled indicated value must be within the range of the values indicated by the Approaches used in the appraisal report form.

## REPORT QUALITY

Each report shall include an original form with a live signature. Electronically transmitted reports may contain a digital signature. Appraisals received by email with facsimile signatures are acceptable. If an emailed appraisal is used, the underwriter must create two complete copies of the appraisal, including photos, for the loan file.

## UNIFORM MORTGAGE DATA PROGRAM

Fannie Mae and Freddie Mac, under the direction of the Federal Housing Finance Agency, have initiated a Uniform Mortgage Data Program (UMDP) to improve data collection standards and processes. This program includes the development and implementation of uniform appraisal and other loan delivery data standards, as well as a joint appraisal data delivery system for single-family loans. The program includes the creation of the Uniform Appraisal Dataset (UAD), the Uniform Collateral Data Portal (UCDP) and the Uniform Loan Delivery Dataset (ULDD).

- **Uniform Appraisal Dataset (UAD):** Defines all fields required for an appraisal submission for specific appraisal forms and standardizes definitions and responses for a key subset of fields to enhance data quality and promote consistency.
  - Conventional appraisals performed on or after September 1, 2011, the UAD format and standardized definitions must be provided using UAD-Compliant Forms
  - UAD – Compliant Forms
    - Uniform Residential Appraisal Report (Fannie Mae 1004/Freddie Mac 70)

- Individual Condo Unit Appraisal Report (Fannie Mae 1073/Freddie Mac 465)
- Exterior-Only Inspection Condo Unit Report (Fannie Mae 1075/Fredie Mac 466)
- Exterior-Only Inspection Residential Appraisal Report (Fannie Mae/Freddie Mac 2055)\*

**- Uniform Collateral Data Portal (UCDP): (UPDATED 04/13/2015)**

All agency (Fannie Mae/Freddie Mac) loans are required to be successfully uploaded into the Uniform collateral Data Portal (UCDP), which requires conformity to GSE requirements including the Uniform Appraisal Data (UAD). The UCDP process includes Fannie Mae's Collateral Underwriter a new proprietary appraisal risk assessment application developed by Fannie Mae to support proactive management of appraisal qualify. The CU feedback provides a risk score (1 to 5) and appraisal messages that relate to eligibility violations and other risk factors.

- **Uniform Loan Delivery Dataset (ULDD):** Fannie Mae and Freddie Mac have established a single-family loan delivery format to the industry standard MISMO Version 3.0 Reference Model, and will increase the number of data elements required at the time of loan delivery.
  - Effective July 23, 2012 loans that do not meet the new ULDD requirements can not be delivered to Fannie Mae or Freddie Mac.
  - Loan Delivery Data includes specific appraisal requirements such as:
    - Property Valuation Method
    - Valuation Effective Date
    - Valuation Amount
    - Appraisal Identifier (UCDP File ID)
    - Appraiser
    - Appraiser License Number

**UAD Rating Requirements:**

UAD establishes field-specific standardized requirements for completing UAD Compliant Forms. With the UAD, Fannie Mae and Freddie Mac will require that appraisals be completed with standardized responses in certain appraisal form fields. Two notable areas are the Condition Rating and Quality Rating as defined below.

**Quality and Condition Ratings:** The appraiser must select one rating (Q1-6 and C1-6) for the subject property and each comparable property. The appraiser must indicate the rating that best describes the overall quality and condition of the property. Multiple choices are not permitted. PBM will review the Condition and Quality of Construction Ratings on UAD compliant appraisal reports in accordance with the requirements stated below:

**Quality Rating:** The appraisal must be reviewed to determine whether the property is considered suitable for year-round occupancy, with all electrical, plumbing, and other mechanical systems and equipment being of acceptable quality.

Properties of unacceptable quality are not eligible for financing unless work will be completed that will bring the property to habitable condition prior to closing. Q1 – Q4 are acceptable property quality ratings; Q5 and Q6 are ineligible for financing in as-is condition.

**Condition Rating:** The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability of the subject property. The appraiser must discuss the impact on value and marketability for improvements that in fair or poor condition and make appropriate adjustments in the Sales Comparison Analysis. The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies that warrant a rating of C5 or C6, the property must be appraised subject to completion of the specific repairs or alterations. In these instances, the property quality rating must reflect the condition of the property based on the hypothetical condition that the repairs or alterations have been completed.

Expanded Definitions for each rating is available in Fannie Mae's UAD Field-Specific Standardized Requirements available at [www.efanniemae.com](http://www.efanniemae.com)

#### AGE OF THE APPRAISAL AND APPRAISAL UPDATE REQUIREMENTS

(Updated 08/07/2015)

Properties must be appraised within the 12 months that precede the date of the note and mortgage.

When an 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. This inspection and results of the analysis must be reported on the Appraisal Updated and/or completion report (Form 1004D).

- If the appraiser indicates on the Form 1004D that the property value has declined, then the Underwriter must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has not declined, then the Underwriter may proceed with the loan in process without requiring any additional fieldwork.

Note: The appraisal update must occur within the four months that precede the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, the Underwriter may use substitute appraisers. When updates are completed by substitute appraisers, the substitute

appraiser must review the original appraisal and express an opinion about whether the original appraiser's opinion of market value was reasonable on the date of the original appraisal report. The Underwriter must note in the file why the original appraiser was not used.

**NOTE:** A recertification for an FHA appraisal must be performed by the original appraiser. The appraisal update must occur within the four months that precede the date of the date and Mortgage.

### USE OF AN APPRAISAL FOR A SUBSEQUENT TRANSACTION

(Updated 08/07/2015)

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

- Subsequent transaction may only be a Limited Cash-Out Refinance.
- The appraisal report must not be more than 12 months old on the note date of the subsequent transaction. If the appraisal report is greater than 4 months old on the date of the note and mortgage, then an appraisal update is required. See preceding section, Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update.
- The Underwriter must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction.

**NOTE:** The appraisal must comply with all other requirements in these Appraisal guidelines.

### PROPERTY GUIDELINES (Updated 09/30/2014)

#### Acceptable Properties:

- SFR
- Condominiums
- PUDs
- 2-4 Units
- Modular homes (factory built)
- Mixed-Use Properties (See Additional eligibility considerations)
- Earth houses, Log Homes, and Geodesic Domes
- Manufactured Homes
- Properties with Acreage (unlimited) – See additional eligibility considerations.

Acceptable properties are residential in nature based on the description of the subject property, zoning and present land use.

Unacceptable Properties

- Condominium Projects with construction defect litigation pending
- Multi-dwelling condominiums or PUD's
- Condotels and Hotel Condominiums
- Co-ops
- Mobile Homes
- On-frame modular construction
- Properties of 5 or more units
- Commercial
- Vacant land or land development properties
- Agricultural properties, such as farms or ranches
- Syndications
- Timeshare
- Houseboats
- "Own-your-own" properties
- Boarding houses
- Breakfast properties
- Properties that are not suitable for year-round occupancy regardless of location

Unacceptable properties include residences lacking kitchen and full bathroom facilities and properties in less than average condition.

ADDITIONAL ELIGIBILITY CONSIDERATIONS:

Location of Property	The subject property must be residential in nature based on the description, zoning and present land use.
Year-Round Use	Properties in resort areas are only acceptable if they are suitable for year round use.
Adjoining Property	Appraiser must consider the present or anticipated use of adjoining property that may adversely affect the value or marketability of the subject property.
Accessibility	All properties must be readily accessible by all-weather roads that meet local standards. Road maintenance agreements requirements may apply.
Utilities	<b>(UPDATED 9/30/2014)</b> Utilities are not required to be turned on at the time of the appraisal inspection. PBM requires that the utilities meet community standards.
<b>Multiple Lots/Parcels</b>	<b>(UPDATED 08/07/2015)</b> The table below provides the requirements when the security property consists of more than one parcel of real estate.
	<b>Multiple Parcels Requirements</b>
	Each parcel must be conveyed in its entirety.
	Parcels must be adjoined to the other, unless they comply

	<p>with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.</p> <p>Each parcel must have the same basic zoning (for example, residential, agricultural).</p> <p>The entire property may contain only one dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot lines runs under the home is acceptable.</p> <p>The mortgage must be a valid first lien that covers each parcel.</p>
Rural Properties	<p>A rural area relates to the country or anything beyond the suburban area, general requirements are:</p> <ul style="list-style-type: none"> <li>✓ Zoning must allow for residential use</li> <li>✓ Primary use must be residential</li> <li>✓ Any income produced must be incidental and non-commercial in nature.</li> </ul>
Properties with Acreage (unlimited)	<p>Properties with Acreage (unlimited) are allowed and must comply with the following:</p> <ul style="list-style-type: none"> <li>✓ The appraiser must appraise the entire site for residential use, regardless of the amount of acreage.</li> <li>✓ Comparable sales should have similar acreage.</li> <li>✓ When differences in acreage exist between the subject property and the comparable sales, any adjustments or lack of adjustments must explain the effect these differences have on the subject property's value or marketability.</li> <li>✓ Site description must accurately describe the entire site and any improvements to include any out buildings.</li> <li>✓ Use of the property must represent a legal, permissible use of the property under local zoning laws.</li> </ul>
Unique Properties	<p>Unique Properties are those with demonstrated limited marketability, an unusual structure or unconventional floor plan. They may be considered on a limited basis. Marketability conforming to the area and acceptable comparable properties are important considerations. Properties that display questionable or limited marketability must be reviewed and approved by Corporate</p>

	Underwriting Administration							
Mixed Use Properties	<p><b>(UPDATED 08/07/2015)</b>  Fannie Mae purchases or securitizes mortgages that are secured by properties that have a business use in addition to their residential use, such as a property with space set aside for a day care facility, a beauty or barber shop, or a doctor’s office.</p> <p>The following special eligibility criteria must be met:</p> <ul style="list-style-type: none"> <li>• The property must be a one-unit dwelling that the borrower occupies as a principal residence.</li> <li>• The borrower must be both the owner and the operator of the business.</li> <li>• The property must be primarily residential in nature.</li> <li>• The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.</li> </ul>							
Outbuildings	<p><b>(UPDATED 08/07/2015)</b>  Underwriter must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.</p> <table border="1" data-bbox="561 1308 1430 1787"> <thead> <tr> <th data-bbox="561 1308 997 1346">Type of Outbuilding</th> <th data-bbox="1003 1308 1430 1346">Acceptability</th> </tr> </thead> <tbody> <tr> <td data-bbox="561 1354 997 1686">Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.</td> <td data-bbox="1003 1354 1430 1686">The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.</td> </tr> <tr> <td data-bbox="561 1694 997 1787">An atypical minimal outbuildings</td> <td data-bbox="1003 1694 1430 1787">The property is acceptable provided the appraiser’s analysis reflects little or no</td> </tr> </tbody> </table>		Type of Outbuilding	Acceptability	Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.	The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.	An atypical minimal outbuildings	The property is acceptable provided the appraiser’s analysis reflects little or no
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		contributory value for it.
	Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals	The presence of the outbuildings may indicate that the property is agricultural in nature. The underwriter must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.
Properties – previously listed for sale  Properties – previously listed for sale continued	<p><b>(UPDATED 12/08/2014)</b>  <b>Fannie Mae Only</b>  Properties listed for sale in the past 6 months must meet the following requirements:</p> <ul style="list-style-type: none"> <li>• It must be taken off the market on or before the disbursement date of the new mortgage loan, and the borrowers must confirm their intent to occupy the subject property (for principal residence transactions).</li> <li>• Copy of cancelled listing agreement*</li> <li>• Good motivation letter from the borrower.</li> <li>• Cash out transaction: Properties listed for sale in the six months preceding the disbursement date of the new mortgage loan are limited to 70% LTV/CLTV/HCLTV ratios (or less if mandated by, occupancy, or property type-for example, 65% for manufactured homes).</li> </ul> <p><b>NOTE:</b> Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan.</p>	
Leasehold Estates	<p><b>(Updated 08/07/2015)</b>  Fannie Mae purchases or securitizes fixed-rate and adjustable rate first lien mortgages that are secured by properties on leasehold estates in areas in which this type of property ownership has received market acceptance. The mortgage must be secured by the property improvements and the borrower’s leasehold interest in the land.</p> <p>The leasehold estate and the improvements must</p> <ul style="list-style-type: none"> <li>• Constitute real property,</li> <li>• Be subject to the mortgage lien, and</li> <li>• Be insured by PBM’s lender’s title policy.</li> </ul> <p><b>Leasehold properties require an Attorney Opinion letter confirming property meets all FNMA/FHLMC guidelines.</b></p>	
Properties with Solar Panels	<p><b>Fannie Mae</b>  <b>Properties with Solar Panels (UPDATED 01/13/15)</b></p>	

<p>Properties with Solar Panels continued</p>	<p>Fannie Mae will purchase or securitize a mortgage loan on a property with solar panels. If the property owner is the owner of the solar panels, standard eligibility requirements apply (for example, appraisal, insurance, and title).</p>	
	<p>✓</p>	<p><b>Requirements for Properties with Solar Panels that are leased or converted by a Power Purchase Agreement</b></p>
		<p>The solar panels may not be included in the appraised value of the property.</p>
		<p>The property must maintain access to an alternate source of electric power that meets community standards.</p>
		<p>The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to</p> <ul style="list-style-type: none"> <li>• Provide delivery of a specific amount of energy at a fixed payment during a given period, and</li> <li>• Have a production guarantee that compensates the owner on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.</li> </ul> <p>Payments under power purchase agreements where the payment is calculated solely based on the energy produced and used may be excluded from the DTI ratio.</p>
	<p>The lease or power purchase agreement must indicate that</p> <ul style="list-style-type: none"> <li>• Any damage that occurs as a result of installation, malfunction, manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); and</li> <li>• The owner of the solar panels agrees not to be named as loss payee (or named insured) on the property owner's property insurance policy covering the residential structure the panels are attached to; and</li> </ul>	

	✓	<b>Requirements for Properties with Solar Panels that are Leased or Covered by a Power Purchase Agreement</b>
		<ul style="list-style-type: none"> <li>• In the event of foreclosure, the lender or assignee has the discretion to <ul style="list-style-type: none"> <li>- Terminate the lease/agreement and required the third-party owner to remove the equipment;</li> <li>- Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or</li> <li>- Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.</li> </ul> </li> </ul>
		Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with Fannie Mae section B7-2-05, Title Exceptions and Impediments.

#### APPRAISAL FORMS

Form Name	Form Number (Fannie/Freddie)	Usage/ Additional Requirements
Uniform Residential Appraisal Report	1004 / 70	Single Family Properties, including those with an accessory unit, an individual unit in a PUD project or a site/detached condominium.
Small Residential Income Property Appraisal Report	1025 / 72	2-4 Unit Properties, report must provide: <ul style="list-style-type: none"> <li>▪ Both rental and sales comparables</li> </ul>
Individual Condominium Unit Appraisal Report	1073 / 465	Single Units in condominium projects, report must provide: <ul style="list-style-type: none"> <li>▪ New Project – comparables: <ul style="list-style-type: none"> <li>- One or more properties outside the project but within the same market area.</li> <li>- At least one resale within the same project, if available.</li> </ul> </li> <li>▪ Established Project – comparables: <ul style="list-style-type: none"> <li>- Should have comparables drawn from the subject project, or</li> </ul> </li> </ul>

		- Contain an explanation why comparables were drawn from outside.
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Review Appraisals/ Update Forms:

Form Name	Form Number (Fannie/Freddie)	Description
One-Unit Residential Appraisal Field Review Form	2000 / 1032	Used by a review appraiser to address the accuracy of data in a one-unit appraisal, and to develop an opinion as to the appropriateness of the methods and techniques used by the original appraiser. The review may be based on an interior/exterior or an exterior only inspection.
Two-to-Four Residential Appraisal Field Review Form	2000A / 1072	Used by a review appraiser to address the accuracy of data in a 2-4 unit appraisal, and to develop an opinion as to the appropriateness of the methods and techniques used by the original appraiser. The review may be based on an interior/exterior or an exterior only inspection.
Appraisal Update and/or Completion Report	1004D / 442	Multi-purpose report from can be completed based on an interior/exterior or exterior only inspection. It is used: <ul style="list-style-type: none"> <li>• For all 1-4 unit properties</li> <li>• To update an existing appraisal if the property has not declined in value since the original report. Report to include two additional comparables.</li> <li>• To confirm that the requirements or conditions established in the original report have been met.</li> <li>• Photos of the completed property or the repaired area are required.</li> </ul> If the original appraiser cannot complete the certification, a substitute may be used. An explanation for using a different appraiser must be evident in the loan file.

At this time, PBM cannot honor Desktop Underwriter (DU) limited appraisal options (i.e. property inspection waivers).

ADDITIONAL APPRAISAL FORMS

Form	Description
Market Conditions Addendum (Fannie Mae 1004 MC / Freddie Mac 71)	<p>Required for all conventional (and government) loans with appraisal on one-to four unit properties. This form provides a detailed and comprehensive analysis of market conditions surrounding the subject property, including:</p> <ul style="list-style-type: none"> <li>• Inventory analysis which contains comparable data</li> <li>• Market Sales and list price, day-on-market (DOM), list and sale ratio</li> <li>• Overall Trends</li> <li>• Seller concessions</li> <li>• Foreclosure sales, summary and analysis of data</li> </ul> <p>All fields on the form must be completed – including those that appear to be gray out. Fields that do not apply must be marked N/A.</p>
Single Family Comparable Rent Schedule (Fannie Mae 1007 / Freddie Mac 1000)	<p>The form is required on all subject investment properties. It is used to document the monthly rent on the subject property regardless if the rental income is used in qualification.</p>

Appraisal Documentation Overview:

A full appraisal report will provide the following minimum requirements:

- A complete sale/transfer history for the subject property (within three years of appraisal date) and all comparable sales (within one year of the appraisal date).
- A description and an analysis of the neighborhood, site and improvements.
- An indicated value for the property using the:
  - ✓ Sales comparison approach
  - ✓ Cost approach (if considered necessary by the appraiser)
  - ✓ Income approach (if applicable)
- A final estimated market value for the subject property with an associated effective date.

APPRAISAL REPORT ATTACHMENTS (UPDATED 08/07/2015):

<p>Interior Photographs of Subject Property</p>	<p>At a minimum, the report must include photographs of the following:</p> <ul style="list-style-type: none"> <li>• the kitchen;</li> <li>• all bathrooms;</li> <li>• main living area;</li> <li>• examples of physical deterioration, if present; and</li> <li>• examples of recent updates, such as restoration, remodeling, and renovation, if present.</li> </ul> <p>Note: Interior photographs on proposed or under constructions properties may be taken by the appraiser at the time of the inspection for Certification of Completion, and provided with the Form 1004D.</p> <p><b>The photos must not contain people or photos of people, either in the subject photos (including street views) or comparison photos.</b></p>
<p>Exterior photographs</p>	<p>Clear, descriptive photographs showing the front, back and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified.</p>
<p>Neighborhood Boundaries</p>	<p>The appraiser should provide an outline of the neighborhood boundaries, which should be clearly delineated using 'North', 'South', 'East', and 'West'. These boundaries, waterways, or other natural boundaries that define the separation of one neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.</p>
<p>Appraiser Certification and Limiting Condition</p>	<p>Each Fannie Mae/Freddie Mac Appraisal report includes an appraiser's certification (and, if applicable, a supervisory appraiser's certification) and a statement of assumptions and limiting conditions. Appraiser may not add limiting conditions.</p> <p>The Appraiser may not make changes or deletions to the existing certifications; however, the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:</p> <ul style="list-style-type: none"> <li>• those required by state law;</li> <li>• those related to the appraiser's continuing education or membership in an appraisal organization; or</li> <li>• those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.</li> </ul>

	<p>Underwriters are responsible for reviewing any additional certifications made by the appraisers to ensure that they do not conflict with Fannie Mae's policies or standard certifications on Fannie Mae appraisal forms.</p> <p>The appraiser's certification #23 is an acknowledgement by the appraiser that certain parties to mortgage finance transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.</p> <p>Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user:</p> <p>"The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject to the stated scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser."</p>
<p>Scope of Work</p>	<p>Appraisers must use the most recent version of the appraisal report forms and include any other information, either as an attachment or addendum to the appraisal report form, needed to adequately support the opinion of market value. Although the scope of work for the appraisal or the extent of the appraisal process. The appraiser's analysis should go beyond any limitations of the forms, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.</p>
<p>Building Sketch and calculations</p>	<p>An Exterior building sketch that indicates dimensions and calculations that demonstrate how the estimate for gross living area is derived.</p> <p>If the floor plan is atypical or functionally obsolete, thus limiting the</p>

	<p>market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae requires a floor plan sketch that includes the interior walls.</p> <p>For a unit in a condo, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable).</p>
Street Map	Showing the location of the subject property and the comparable that the appraiser used.
Certificate of Occupancy	Certificate of Occupancy is always required for newly constructed dwellings unless the borrower or contractor/developer submits a letter from the appropriate governmental authority stating it is not required.

## APPRAISAL REPORT – SECTIONS

**Subject Property Identification & Contract Information:** The subject section is used to identify and describe the location of the subject property, provide information about property taxes and special assessments, occupancy and transaction information. A complete property address and legal description of the property being appraised. Property rights must be identified as fee simple or leasehold.

The appraiser is required to research and comment on whether the subject property is currently for sale or if it has been listed for sale within 12 months prior to the effective date of the appraisal. The appraiser must report on each occurrence or listing and provide the data source(s), offering prices, and data(s).

Sales price, contract date, and loan charges paid by, or financing and sales concessions made by the property seller must be included as set forth in the Purchase Contract. The appraiser must analyze and report on: any current contract for sale; the owner of public record; and financing data and sales concessions. In addition, the report must reflect sales in the past three years.

**Neighborhood Analysis (UPDATED 08/07/2015):** The appraiser should provide an outline of the neighborhood boundaries, which should be clearly delineated using ‘North’, ‘South’, ‘East’, and ‘West’. These boundaries may include, but are not limited to streets, legally recognized neighborhood boundaries, waterways, or other natural boundaries that define the separation of one neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.

**Neighborhood characteristics (UPDATED 08/07/2015):** These can be addressed by the types of structures (detached, attached) and architectural styles in the neighborhood (such as row or townhouse, colonial, ranch, or Victorian); current land use (such as single-family residential, commercial, or one-way street, cul-de-sac, or court).



## **Factors that affect the value and marketability of properties in the neighborhood.**

**(UPDATED 08/07/2015):**

These can be addressed by such things as the proximity of the property to employment and amenities, employment stability, appeal to the market, changes in land use, access to public transportation, and adverse environmental influences.

The appraiser must fully consider all of the value-influencing characteristics in the neighborhood and arrive at an appropriate neighborhood description and opinion of value for the property, even if this requires more extensive research for particular property types or for properties in certain geographic locations.

An appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised, based on the actions of typical buyers. The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the neighborhood, but also to define the area from which to select the market data needed to perform a sales comparison analysis.

In performing a neighborhood analysis, the appraiser

- collects pertinent data,
- conducts a visual inspection of the neighborhood to observe its physical characteristics and determine its boundaries, and
- identifies land uses and any signs that the land uses are changing.

Fannie Mae expects the appraiser and the lender's underwriter to be aware of the varying conditions that characterize different types of neighborhoods. Conditions that are typical in certain neighborhoods may not be present in other neighborhoods.

This does not mean that the existence of certain types of conditions or characteristics are unacceptable; rather, it is an indication that they must be viewed in context with the nature of the neighborhood in which the security property is located. For example, some neighborhoods consist of a variety of property types that have different uses. It is not uncommon to find properties that have mixed-uses, such as residential properties that also have child-care facilities, doctor or dental offices, and other types of business or commercial uses. The presence of mixed-use properties or a variety of property types within a neighborhood should be viewed as a neighborhood analysis and describing the neighborhood boundaries.

The appraiser must consider the influence of market forces, including but not limited to, economic, governmental, and environmental factors on property values in the neighborhood. Economic forces that must be considered include such things as the existence of vacant or boarded-up properties in the neighborhood, and the level of essential local support services. Examples of governmental forces that should be taken into consideration include the regulations, laws, and taxes that are imposed on properties. Environmental forces that must be considered include, among other things, the existence of a hazardous waste site on or near the property, and the proximity of a property to an airport.

Certain other factors that are not appraisal factors, such as the racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a particular neighborhood, must not be considered in the valuation process.

The appraiser must determine, analyze, and consider factors in the valuation process based on his or her identification of all forces or factors that have the potential to influence the value of the property. The appraiser must report neighborhood conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors in a neighborhood. If an appraiser can demonstrate by market evidence that a characteristic has an effect on the value or marketability of the properties in the neighborhood, he or she must consider it in the valuation process. The appraiser must not make unsupported assumptions or interject personal opinion or perceptions about market forces or other factors that may or may not affect the use and value of a property. For example, a property located in an older neighborhood can be as sound an investment as a property located in a new neighborhood.

SITE

<p><b>Topography</b></p>	<p><b>(UPDATED 08/07/2015)</b>          The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.</p>
<p><b>Zoning</b></p>	<p><b>(UPDATED 08/07/2015)</b>          The appraiser must report the specific zoning class in the appraisal, along with a general statement as to what the zoning permits, such as one- or two-unit, when he or she indicates a specific zoning such as R-1 or R-2. The appraisal must indicate whether the subject property presents</p> <ul style="list-style-type: none"> <li>• a legal conforming use,</li> <li>• a legal non-conforming (grandfathered) use,</li> <li>• an illegal use under the zoning regulations, or</li> <li>• that there is no local zoning.</li> </ul> <p>Fannie Mae only purchases or securitizes mortgage loans on properties if the improvements constitute a legal conforming use of the land. However, Fannie Mae will purchase or securitize a mortgage for a property that constitutes a legal, non-conforming use of the land in the following scenarios:</p>

	<ul style="list-style-type: none"> <li>• the property is a one- to four-unit property or a unit in a PUD and the use of the land and the appraisal analysis reflects any adverse effect that the non conforming use has on the value and marketability of the property; or</li> <li>• the property is a condo unit or co-op share loan and the improvements can be rebuilt to current density in the event of partial or full destruction, and the mortgage file includes either a copy of the applicable zoning regulations or a letter from the local zoning authority that authorizes reconstruction to current density.</li> </ul> <p>Fannie Mae 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.</p>
<b>Site Utilities</b>	<p><b>(UPDATED 08/07/2015)</b></p> <p>For mortgage loans to be eligible for purchase or securitization, the utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance. If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the value and marketability of the subject property (see B4-1.4-08, Environmental Hazards Appraisal Requirements).</p> <p>Septic or well system inspections and certifications must be provided if required <i>by the purchase agreement</i> or recommended by the appraiser.</p>
<b>Off Site Improvements</b>	<p><b>(UPDATED 08/07/2015)</b></p> <p>Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs and gutters, and street lights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents.</p> <p>If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.</p>

	<p>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 value and marketability of the subject property.</p>
<p><b>Special Flood Hazard Areas</b></p>	<p><b>(UPDATE 08/07/2015)</b>  Fannie Mae's appraisal report forms provide an area for the appraiser to indicate whether 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. The appraiser must also indicate the specific FEMA flood zone and the map number and its effective date. For additional information concerning Fannie Mae's policies on flood insurance, see B7-3-07, Flood Insurance Coverage Requirements.</p>
<p><b>Community-Owned or Privately Maintained Streets</b></p>	<p><b>(UPDATED 08/07/2015)</b>  If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:</p> <ul style="list-style-type: none"> <li>• responsibility for payment of repairs, including each party's representative share;</li> <li>• default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and</li> <li>• the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.</li> </ul> <p><b>Note:</b> If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.</p> <p>If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still deliver the loan. However, should Fannie Mae experience any losses or expenses as a result of the physical condition of the street or in order to establish and/or retain access thereto, the lender is responsible for the reimbursement of losses or expenses.</p>

**Environmental**

**(UPDATED 08/07/2015)**

**Overview**

Fannie Mae purchases or securitizes mortgage loans secured by properties affected by environmental hazards if the effect 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.

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

**Environmental  
Continued**

**Appraisal Requirements**

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, including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, or radon gas, the appraiser must

- note the hazardous condition in the appraisal report;
- comment on any influence 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, or indicate that the comparable market data reveals no buyer resistance to the hazard; and
- make appropriate adjustments in the overall analysis of the property's value.

Fannie Mae expects 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 value and marketability of the subject property.

**Note:** Fannie Mae does not consider the appraiser to be an expert in the field of environmental hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. The appraiser, however, has a responsibility to note in the appraisal report any 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.

	<p><b>Lender Requirements</b></p> <p>Fannie Mae requires the lender to disclose any information regarding environmental hazards to the appraiser and note the individual mortgage file accordingly 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. Fannie Mae also requires the lender to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.</p> <p><b>Environmental Continued</b></p> <p>The lender must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage. For example, because Fannie Mae requires the appraiser to comment on the effect of a hazard on the value and marketability of the subject property, the appraiser would have to note when there is market resistance to an area because of 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 a 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.</p>
<b>Earthquake</b>	Indicate the existence of a Special Studies (Earthquake) area, if any.
<b>Easements</b>	Any easements, other than typical utility easements, must be identified and any impact on the marketability of the subject property must be discussed. Any encroachments or adverse influences should be identified and adequate photos included.

## IMPROVEMENTS

<b>General</b>	The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability.
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There is no minimum size of living area or minimum specifications for material and construction. However, dwelling units of any type should contain sufficient living area to be acceptable to typical purchasers or tenants in the market area.

If the subject property does not conform to its neighborhood in terms of age, type design and the materials and techniques used in construction, the appraisal must evaluate the effect the non-conformance has on marketability.

**Property with Outbuildings**

**(UPDATED 08/07/2015)**

A lender must give properties with outbuildings special consideration in the appraisal report review to ensure the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

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





<p><b>Unique Properties</b></p>	<p><b>(UPDATED 08/07/2015)</b></p> <p>When appraising unique properties:</p> <ul style="list-style-type: none"> <li>• if the appraiser cannot locate recent comparable sales of the same design and appeal, but is able to determine sound adjustments for the differences between the comparables that are available and the subject property and 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 property is acceptable as security for a mortgage deliverable to Fannie Mae;</li> <li>• 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 opinion of market value, the property is not acceptable as security for a mortgage deliverable to Fannie Mae.</li> </ul> <p><u>Properties that display questionable or limited marketability must be reviewed and approved by a Corporate Underwriting Administrator.</u></p>
<p><b>Remaining Economic Life</b></p>	<p><b>(UPDATED 08/07/2015)</b></p> <p>Fannie Mae does not have any requirements related to the remaining economic life of the property. However, related property deficiencies must be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.</p> <p>Fannie Mae's appraisal report forms are designed to meet the needs of several different user groups; consequently, the report forms address the remaining economic life for the property being appraised. However, appraisers are not required to report this information. If appraisers report this information, lenders do not need to consider remaining economic life because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.</p>

**Property  
Conditions**

**(UPDATED 08/07/2015)**

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

The table below provides the requirements for property condition.

✓	<b>Requirements</b>
	The appraisal report must express an opinion about the condition of the improvements based on the factual data of the improvements analysis.
	Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property.  <b>Note:</b> Appraisers are not responsible for hidden or unapparent conditions.
	Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as, but not limited to, needed repairs, deterioration, or the presence of hazardous wastes, toxic substances, or adverse environmental conditions.
	Detrimental conditions of the improvements must be reported in the appraisal even if the conditions are typical for competing properties.
	The appraiser must consider and describe the overall condition and quality and condition of the property improvements. (See Identifying Property Condition; Definitions of Not Updated, Updated, and Remodeled; and Identifying Quality of Construction in this topic for details.)
	The appraiser must identify <ul style="list-style-type: none"><li>• items that require immediate repair; and</li><li>• items where maintenance may have been deferred, which may or may not require immediate repair.</li></ul>
	The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

**Property  
Conditions  
Continued**

<p><b>Infestation, Dampness or Settlement</b></p>	<p><b>(UPDATED 08/07/2015)</b>          If the appraisal indicates evidence of wood-boring insects, dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The Underwriter must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements.</p>
<p><b>Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject</b></p>	<p><b>(UPDATED 08/07/2015)</b>          The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be appraised subject to completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.</p> <p>If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to confirm that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to confirm the necessary alterations or repairs have been completed prior to delivery of the loan.</p>

**INSPECTION AND CERTIFICATION REQUIREMENTS (Updated 08/07/2015)**

If the appraisal indicates evidence of wood-boring insects, dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The Lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements.

<b>Type of Inspection</b>	<b>When Required</b>	<b>Age of Inspection</b>	<b>Performed By</b>
TERMITE	When the appraiser recommends the inspection in the	The inspection must be completed within 90 days preceding the	Must be performed by a professional licensed in the
PRIVATE WELL			
SEPTIC SYSTEM			

ROOF	appraisal report.	date of the note.	respective or related field.
Any other inspection required by the sales/purchase agreement or appraisal.	Required on Loans (except VA IRRRL and FHA streamline)		

**Termite Reports:** The inspection must include all buildings on the property this includes the garage, regardless if it's attached or detached. All Section 1 must be cleared by the termite company or licensed contractor. There is a specific list of critical Section 2 items that must be repaired prior to funding. Please refer to the termite section of the funding manual. **Corrective Action:** When an inspection report recommends a corrective action, the deficiency must be corrected and documented in the loan file prior to closing the loan.

Conventional loans: If the purchase contract indicates a termite report, but the Appraiser does not condition for one PBM will NOT require a Termite Report or Clearance. However, if a Termite Report and/or Clearance have been provided to PBM then it MUST be reviewed/cleared by the Underwriter ONLY.

**Corrective Action:** When an inspection report recommends a corrective action, the deficiency must be corrected and documented in the loan file prior to closing the loan.

**Re-use of an appraisal report for a Subsequent Transaction (Updated 09/30/2014)**

When an appraisal is required for subsequent transaction secured by the update is obtained and the following requirements are met:

- The borrowers on the new transaction must be the borrowers on the prior transaction. The only exception is in the event of a divorce or legal separation. The borrower for the new transaction must be one of the borrowers on the prior transaction, and the file must document that the borrower for the new transaction obtained the property through a divorce or legal separation.
- Since the effective date of the prior appraisal report, the mortgaged premises must not have undergone any substantial rehabilitation or renovation or have been affected by a disaster to the extent that the improvement or deterioration of the property would affect marketability or market value.
- The new transaction may not be a purchase transaction, a cash-out refinancing, or a payoff of secondary financing.
- The appraisal report from the prior transaction must meet all the following requirements:
  - The effective date of the appraisal report from the prior transaction must not be more than 12 months prior to the note date of the subsequent transaction.
  - The appraisal must be specifically authorized by PBM or 3<sup>rd</sup> Party (AMC).
  - The appraisal update must meet all requirements reflecting the mortgage transaction (e.g., the current borrowers, the appropriate transaction type, owner of record, lender)

**Operating Systems:** When an appraiser comments that the operating systems or portion of the structure is reaching the end of its physical life, the inspection must certify that the system has at least a remaining life of a minimum of two years. Operating Systems refers to items such as: the roof, plumbing, hot water system, or heating system.

**Carbon-Monoxide Detectors – All Loans (Updated 9/30/2014)**

PBM will adhere to and document the approach the appraiser has taken in completing the appraisal report.

- If the appraiser notes the absence of a working Carbon Monoxide detector and appraisal is **“Subject To”**– A 1004D will be required evidencing the completion of the requirements.
- If the appraiser notes the absence of a working Carbon Monoxide detector, but appraisal reads, **“AS IS”** – A Borrower’s Certification and receipts for the Carbon Monoxide Detector is acceptable to assure the work has been completed.
- If the appraiser does not mention the absence of a working Carbon Monoxide detector in the appraisal report, neither a 1004D nor a Borrower’s Certification evidencing completion will be required in regards to the Carbon Monoxide detector (modified 021913).

Wholesale and Retail process:

- **Borrower, Buyer or Buyers Real Estate Agent** to provide receipts that the Carbon Monoxide Detector has been purchased.
- **Borrower, Buyer, or Buyer’s Real Estate Agent** may certify that the Carbon Monoxide Detector has been installed.
- **Borrower, Buyer or Buyer’s Real Estate Agent** must provide a picture of the installed Carbon Monoxide Detector.

SALES COMPARISON ANALYSIS (UPDATED 12/20/14)

<p><b>Due Diligence</b></p>	<p>The appraiser must use due diligence to ensure the reliability of the comparable data used. If data is provided by a party that has a financial interest in the property, such as a real estate broker, that appraiser must re-verify the data with an uninterested party.</p> <p>The source of all data must be provided in order for the reviewer to confirm the information. All sales data must be verified from at least two sources.</p>
<p><b>Selection of Comparable Sales</b></p>	<p><b>(UPDATED 05-14-2015)</b></p> <p>The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living</p>

area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible. Sale activity from within the neighborhood is the best indicator of value for properties in that neighborhood as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

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

**Selection of  
Comparable Sales  
Continued**

If a property is located in an area in which there is a shortage of truly comparable sales, either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood, the appraiser might need to use as comparable sales, properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents his or her analysis and explains why these sales were used. (For additional information, see B4-1.3-03, Neighborhood Section of the Appraisal Report.

For specific information concerning the selection of comparable sales for manufactured home appraisals, see B4-1.4-01, Factory-Built Housing: Manufactured Housing.)

When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in

	<p>terms of miles and include the applicable directional indicator (for example, “1.75 miles NW”). The distance between the subject property and each comparable property is to be measured using a straight line between the properties.</p>
<p><b>Minimum Number of Comparable Sales</b></p>	<p><b>(UPDATED 05-14-2015)</b></p> <p>A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.</p> <p>In no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three closed comparables, these transactions, which are often completed as part of a construction-to-permanent loan transaction, may be included as additional support with appropriate commentary.</p>
<p><b>Age of the Comparable Sales</b></p>	<p><b>(UPDATED 05-14-2015)</b></p> <p>Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.</p>
<p><b>Age of the Comparable Sales</b></p>	<p>Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate 3 truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as he or she explains why they are being used.</p>
<p><b>Additional Requirement for New (or Recently Converted) Condos, Subdivision, or PUDS</b></p>	<p><b>(UPDATED 05-14-2015)</b></p> <p>If the subject property is located in a new (or recently converted) condo, subdivision, or PUD, then it must be compared to other properties in the neighborhood 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. The appraiser must 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, provided it is a good indicator of value for the subject property.</p>

	<p>Two of the sales must be verifiable from reliable data sources, other than the builder. Sales or resales from within the subject subdivision or project are preferable to sales from outside the subdivision or project provided the developer or builder of the subject property is not involved in the transactions.</p> <ul style="list-style-type: none"> <li>• To meet the requirement that the appraiser utilize one comparable sale from inside the subject subdivision or project, the appraiser may need to rely solely on the builder of the property he or she is appraising, as this data may not yet be available through typical data sources (for example, public records or multiple listing services). In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the settlement statement from the builder's file.</li> <li>• When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades</li> </ul>
<p><b>Rural Properties</b></p>	<p><b>(UPDATED 05-14-2015)</b></p> <p>Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgement in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.</p>
<p><b>Use of Foreclosures and Short Sales</b></p>	<p><b>(UPDATED 05-14-2015)</b></p> <p>It is acceptable to use foreclosures and short sales as comparables if the appraiser believes they are the best and most appropriate sales available. The appraiser must address in the appraisal report the prevalence of such sales in the subject's neighborhood and the impact, if any, of such sales. The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it. The appraiser cannot assume it is equal to the subject property. For example, a foreclosure or short sale may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. For appraisal that are required to be a UAD compliant, the appraiser must identify the sale type as REO sale or short sale, as appropriate.</p>



<p><b>Established Subdivisions</b></p>	<p>For properties that are in established subdivisions, or for established. Condo or PUD projects, the Appraiser should use comparable sales from within the subject property’s subdivision, if available. Should the Appraiser use sales of comparable outside the subject neighborhood, they must include an explanation with the analysis.</p>								
<p><b>Condo Project Types</b></p>	<p><b>(UPDATED 05/14/2015)</b></p> <p>The scope of Fannie Mae’s requirements and the specific eligibility criteria to be met are dependent upon various project and/or loan level characteristics. The characteristics that define each project type are described in the following table.</p> <table border="1" data-bbox="479 772 1427 1791"> <thead> <tr> <th data-bbox="479 772 743 814"><b>Project Type</b></th> <th data-bbox="743 772 1427 814"><b>Identification Criteria</b></th> </tr> </thead> <tbody> <tr> <td data-bbox="479 814 743 1150">Established Condo Project</td> <td data-bbox="743 814 1427 1150"> <p>A project for which all of the following are true:</p> <ul style="list-style-type: none"> <li>• at least 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>• the project is 100% complete, including all units and common elements;</li> <li>• the project is not subject to additional phasing or annexation; and</li> <li>• control of the HOA has been turned over to the unit owners.</li> </ul> </td> </tr> <tr> <td data-bbox="479 1150 743 1570">New condo project</td> <td data-bbox="743 1150 1427 1570"> <p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> <li>• fewer than 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>• the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;</li> <li>• the project is newly converted; or</li> <li>• the project is subject to additional phasing or annexation.</li> </ul> </td> </tr> <tr> <td data-bbox="479 1570 743 1791">Two-to four-unit condo project</td> <td data-bbox="743 1570 1427 1791"> <p>A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed. A two- to four-unit condo project may be either a new or an established project and may be comprised of attached and/or detached units.</p> </td> </tr> </tbody> </table>	<b>Project Type</b>	<b>Identification Criteria</b>	Established Condo Project	<p>A project for which all of the following are true:</p> <ul style="list-style-type: none"> <li>• at least 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>• the project is 100% complete, including all units and common elements;</li> <li>• the project is not subject to additional phasing or annexation; and</li> <li>• control of the HOA has been turned over to the unit owners.</li> </ul>	New condo project	<p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> <li>• fewer than 90% of the total units in the project have been conveyed to the unit purchasers;</li> <li>• the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;</li> <li>• the project is newly converted; or</li> <li>• the project is subject to additional phasing or annexation.</li> </ul>	Two-to four-unit condo project	<p>A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed. A two- to four-unit condo project may be either a new or an established project and may be comprised of attached and/or detached units.</p>
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	Planned unit development (PUD) project	A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners.  See Fannie Mae Guidelines <a href="#">B4-2.3-01, Eligibility Requirements for Units in PUD Projects</a> , for additional detail used in determining whether a project is subject to Fannie Mae’s PUD eligibility requirements.

**ADJUSTMENTS TO COMPARABLE SALES**

Each comparable sale must be analyzed for similarities and differences between it and the subject property. The appraiser must make adjustments for all criteria listed on the left-hand side of the form. Comparable sales must be adjusted to the property, except for sales and financing concessions that are adjusted to the market at the time of sale. The property is the standard against which the comparable sales are evaluated and adjusted.

**Fannie Mae**

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

If the extent of the appraiser’s adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported.

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

<b>Unique Housing Types</b>	<b>(UPDATED 05-14-2015)</b> In the appraisal and appraisal report review processes, special consideration must be given to properties that represent unique housing for the subject neighborhood. Mortgages secured by unique or non-
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traditional types of housing, including but not limited to, earth houses, geodesic domes, and log houses, are eligible for deliver to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the special or unique property and the more traditional types of houses in the neighborhood and the number of such properties that have already been sold in the neighborhood.

**Unique Housing  
Types  
Continued**

When appraising unique properties,

- If cannot locate recent comparable sales of the same design and appeal, but is able to determine sound adjustments for the differences between the comparables that are available and the subject property and 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 property is acceptable as security for a mortgage deliverable to Fannie Mae;
- 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 opinion of market value, the property is not acceptable as security for a mortgage deliverable to Fannie Mae.

Fannie Mae does not specify minimum size or living area requirements for properties with the exception of manufactured housing. There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

**Net and Gross**

To qualify as a comparable sale, the underwriter should use the following

<b>Adjustment Guideline</b>	<p>guideline for the net and gross percentage adjustments:</p> <ul style="list-style-type: none"> <li>- The dollar amount of the <b>net</b> adjustment for each comparable sale should not exceed 15% of the comparable's sales price.</li> <li>- If the adjustments exceed 15%, the appraiser must comment on the reason for not using more similar sales.</li> <li>- The dollar amount of the <b>gross</b> adjustment for each comparable sale should not exceed 25% of the comparable's sale price.</li> <li>- The amount of the gross adjustment is determined by totaling all the individual adjustments without regard to plus or minus signs. If the adjustments exceed 25%, the appraiser must comment on the reason for not using more similar sales.</li> </ul>
<b>Excessively High Adjustments</b>	<p>It is incumbent on the appraiser to research and select the most comparable sales available for the property. Individual adjustments that are excessively high must be explained by the appraiser. Underwriters must carefully review each comparable to ensure the adjustments reflect the market's reaction to the differences.</p>
<b>Adjustments outside Guidelines</b>	<p>Individual adjustments that are higher than normal must be explained by the appraiser and carefully reviewed by the underwriter. The extent of the adjustments outside guidelines could indicate that the property does not conform to the general market area (i.e. atypical property).</p>
<b>Proximity and Location</b>	<p>The description of the proximity of the comparable sale to the subject property must be specific.</p>
<b>Sales Price</b>	<p>The sales price for each comparable sale should be within the general range of the appraiser's opinion of market value for the subject property.</p>
<b>Sales or Financing Concessions</b>	<p><b>(UPDATED 05-14-2015)</b></p> <p>Comparable sales that include or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the comparables based on the market at the time of sale.</p> <p>Examples or financing concessions include:</p> <ul style="list-style-type: none"> <li>• Interest rate buy downs or other below-market rate financing;</li> <li>• Loan discount points;</li> <li>• Loan origination fees;</li> <li>• Closing cost customarily paid by the buyer;</li> <li>• Payment of condo, or PUD fees or assessment charges;</li> <li>• Refunds of (or credit for) the borrower's expenses;</li> <li>• Absorption of monthly payments;</li> <li>• Assignment of rent payments; and</li> <li>• Inclusion of non-realty items in the transaction.</li> </ul> <p>The dollar amount of sales or financing concession paid by the seller must be reported for the comparable sales if the information is reasonably available. Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data</p>

	<p>source. If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available. If the appraisal report form does not provide enough space to discuss this information, the appraiser must make an adjustment for the concessions on the form and include an explanation in an addendum to the appraisal report.</p> <p>The amount of the negative dollar adjustment for each comparable with sales or financing concession should be equally to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions.</p> <p>The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing concessions can be relatively typical in a particular segment of the market and still result in sales prices that reflect more than the value of the real estate. Adjustments based on dollar-for-dollar deductions that are equal to the cost of the concessions to the seller, as a strict cash equivalency approach would dictate, are not appropriate.</p> <p>Fannie Mae recognizes that the effect of sales or financing concession on sales prices can vary with the amount of the concessions and differences in various markets. Adjustments must reflect the difference between what the comparables actually sold for with the sales or financing concession 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.</p> <p>Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice of law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property. Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.</p>
<p><b>Sales or Financing Concessions Continued</b></p>	<p><b>(UPDATED 05-14-2015)</b></p> <p>The date of sale and the time adjustment (market conditions) are critical elements in determining an accurate value because the appraisal is based on a specific date in time (effective date of appraisal). The comparable</p>

sales being considered must be analyzed by the appraiser to determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal. This analysis will determine whether a time adjustment is warranted. Adjustments may be either positive or negative depending on the market changes over the time period analyzed. Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the appraisal report.

When completing Fannie Mae's appraisal report forms, the appraiser should provide the date of the sales contract and the settlement or closing date. Only the month and year need to be reported. For example, appraisers may use "s04/10" or "c02/10" where "s" reflects the settlement or closing date and "c" reflects the contract date. If the exact date is necessary to understand the adjustments, it must be explained elsewhere in the report or in an addendum. If the contract date is unavailable to the appraiser in the normal course of business, the appraiser must enter the abbreviation "Unk" for unknown, in place of the contract date.

**Gross Living Area**

**(UPDATED 05-14-2015)**

The most common comparison for one-unit properties, including units in PUD, or condo 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. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count and gross living area should not change.

**When calculating gross living area**

- The appraiser should use the exterior building dimensions per floor to calculate the above grade gross living area of a property.
- For units in condo projects, the appraiser should use interior perimeter unit dimensions to calculate the gross living area.
- Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.
- 

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included

	<p>in the above-grade room count. Rooms that are not included in the above-grade areas separately and make the appropriate adjustments for them on the Basement &amp; Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.</p> <p>For consistency in the sales comparison analysis, the appraiser should compare above-grade areas to above-grade areas and below grade areas to below grade areas. The appraiser may need to deviate from this approach if the style of the subject property or any of the comparables does not lend itself to such comparisons. For example, a property built into the side of a hill where the lower level is significantly out of ground, the interior finish is equal throughout the house and the flow of function of the layout is accepted by the local market, may require the gross living area to include both levels. However, in such instances, the appraiser must be consistent throughout the appraisal in his or her analysis and explain the reason for the deviation, clearly describing the comparisons that were made.</p>
<p><b>Gross Building Area</b></p>	<p>The gross building area</p> <ul style="list-style-type: none"> <li>• Is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements;</li> <li>• Is the most common comparison for two-to-four-units properties;</li> <li>• Must be consistently developed for the subject property and all comparables used in the appraisal;</li> <li>• Must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and</li> <li>• Cannot count exterior common areas, such as open stairways.</li> </ul> <p>Fannie Mae will accept the use of other comparisons for two-to four unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser</p> <ul style="list-style-type: none"> <li>• Explains the reasons he or she did not use a gross building area comparison, and</li> <li>• Clearly describes the comparisons that were made.</li> </ul>
<p><b>Over Improvements</b></p>	<p>An over-improvement is an improvement that is larger or costlier than what is typical for the neighborhood. For example, a 4,000 square foot home located in an area of homes where the typical home is 2,000 square feet may be considered an over-improvement. Furthermore, a home with an in ground pool in an area where pools are not typical may also be considered an over-improvement. The appraiser must comment on over-improvements and indicate their contributory value is in the Sales Comparison Approach adjustment grid.</p> <p>Improvements can represent an over-improvement for the neighborhood, but still within the neighborhood price range, such as property with an in-</p>

ground swimming pool, a large addition or an oversized garage in a market that does not demand these kinds of improvements.

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

## OTHER APPRAISAL REPORT CONSIDERATIONS

**Prior Sales within 36 months of the Appraisal:** The USPAP requires appraisers to report a minimum three-year prior sales history for the subject property. The appraiser must respond to a series of questions related to the sale or transfer history for the three years prior to the effective date of the appraisal for the subject property and comparable sales is part of the sales comparison approach.

**Reconciliation:** The reconciliation process used throughout the appraiser's analysis leads to the estimate of market value. A final reconciliation of the reasonableness and reliability of each approach to value as it relates to indicated values and the available data is required. The appraiser must indicate the approach or approaches that were given the most weight. Averaging techniques are not allowed.\

### **Re-Inspections (Updated 09/30/2014)**

Appraisal Reports made subject to project completion in accordance with plans and specifications, or repairs, must be re-inspected by the appraiser and a completion report must be executed (Form 1004D).

A front photograph of the subject must be taken when completing the Appraisal Update portion of the Appraisal Update and/or Completion Report (Form 1004D) to validate that the appraiser has inspected at least the exterior of the property when he or she performed the appraisal update.

When there are incomplete items or conditions that do affect the safety, soundness, or structural integrity of the property, the property must be appraised subject to completion of the specific alteration or repairs. These items can include: a partially completed addition or renovation; or physical deficiencies that could affect the soundness or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, and active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the Underwriter must obtain a certificate of completion from the appraiser before the funding of the mortgage. Although the original appraiser should complete any required certification of completion, PBM may use a substitute appraiser. If the initial appraisal is subject to repairs that affect safety, soundness or habitability, an interior and exterior inspection is required if repairs are required for the interior of the dwelling. Otherwise, an exterior-only inspection is required.

**Appraiser's Comments:** A comment section is provided for the Appraiser to report general market



conditions, the prevalence of financing or sales concessions, and their effect on the subject property or market area. In a new tract environment, the Appraiser should address what the current absorption rate appears to be in the subject and competing tracts. The Appraiser should comment as to the effect on pricing and marketability if there are special assessments present. Builder concessions, buy-down interest rates, prepaid closing costs etc, offered in new tracts must be commented on as to affect on marketability.

## APPROACH TO VALUE

### **COST APPROACH (Updated 09/30/2014)**

The cost approach estimates the value of the property by adding the replacement costs of improvements, less depreciation, site improvement, and the land value as of the date of the appraisal. Acceptable appraisals will not rely solely on the cost approach as an indicator of value.

- A. Properties that are new and properties that have unique characteristics due to style or construction, or that have functional obsolescence require the cost approach. The cost approach is not required for appraisals of condominium units or attached PUD units.
  - B. All forms of depreciation must be considered by the Appraiser. Physical Depreciation (which may be referred to as Physical Deterioration, Functional Depreciation, Functional Obsolescence, or External Depreciation), has traditionally been referred to as economic obsolescence. Any such depreciation must be fully explained by the Appraiser, and found to be consistent with the comments and adjustments elsewhere in the Appraisal Report.
- **Freddie Mac Only:** Appraisals that rely primarily on the cost or income approaches to value in order to estimate market value are unacceptable.
- C. Land values that exceed the depreciated value of improvements must be discussed and explained.

## INCOME APPROACH

Appraisals that rely solely on the income approach to value as an indicator of market value are not acceptable. The income approach to value is based on the assumption that market value is related to market rent.

The Income Approach to value is primarily suitable in:

- One-unit property neighborhoods that constitute a substantial rental market
- The valuation of two-to-four unit properties

## GEOGRAPHIC RESTRICTIONS

Provident Bank Mortgage will monitor changes in market conditions throughout its lending area. When market conditions suggest an increased risk to property values, an announcement to lending personnel will be issued outlining market restrictions.

## PRICE RANGE AND PREDOMINANT PRICE (UPDATED 09/30/14)

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 one unit properties, two-to four- unit properties, or condo units depending on the property type being appraised and the appraisal form being used. 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 more appropriate.

## AGE RANGE AND PREDOMINANT AGE (UPDATED 09/30/14)

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 one unit properties, two-to four-unit properties, or condo units depending on the property type and the appraisal form being used. 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.

When the age of the subject property is significantly different than the predominant age range, the appraiser must explain why the age is outside the range and comment on the marketability of the property and the adjustments that were made in the Sales Comparison Approach adjustment grid to reflect that condition.

## PROPERTIES LOCATED IN FEMA DECLARED DISASTER AREAS

When a natural disaster occurs, the Federal Emergency Management Agency (FEMA) publishes the list of counties and/or independent cities that have been presidentially declared eligible for federal assistance.

PBM will require re-inspection of property for loans secured by properties located in a declared disaster area. Those areas impacted by this policy within the PBM lending area are noted in the PBM Disaster Areas list, found in the Quick Look Book.

### ***Appraisal Performed Prior to Federal Disaster***

If the original appraisal was performed before the area was declared a federal disaster, a re-inspection of the property must be performed by the original appraiser or a PBM approved nationally recognized field company prior to funding the loan (contact Corporate Underwriting for assistance). The appraiser must provide the following commentary/evidence:

- Property is free from damage and the disaster had no affect on value or marketability
- If the re-inspection indicates damage, the extent of the damage must be addressed.  
Completion of repairs is required as evidenced by Form 1004D/442, Appraisal Update and/or Completion Report with photos, prior to PBM funding the loan.

### *Appraisal Performed After the Federal Disaster*

If the original appraisal was performed after the area is declared a federal disaster and prior to the incident end date, the appraiser must submit written certification that the property is free from damage and that the disaster has had no affect on value or marketability. If the subject property has received damage due to the disaster, PBM will require additional documentation to ensure the property is "safe, sound and sanitary" before the loan is funded.

#### *Written Inspection Certification Statement*

The written inspection certification provided by the appraiser who re-inspects the property must include language similar to

*“Having reviewed the original appraisal report and personally inspected the property located at (subject address) and surrounding neighborhood on (date), I hereby certify that, to the best of my knowledge and belief, the inspection revealed no indications of moderate to significant damage to the property or neighborhood, no needed repairs to the site or the improvements other than those that were noted in the original appraisal report, and no adverse effect on the marketability and value of the property”*

#### *Effective Date of Disaster*

The disaster area policy is effective as of the **declaration date** published by FEMA for the disaster/event. PBM will publish a comprehensive list of impacted areas for the disaster/event as soon as possible after the declaration is issued.

### FANNIE MAE /FREDDIE MAC GUIDELINES

Appraiser and Underwriter should refer to FNMA guidelines. Reviewing the Appraisal Report, FHLMC Appraisal Requirements for 1-4 unit properties, for all additional guidelines pertaining to appraisal of residential units.

### APPRAISER LICENSING VALIDATION

As part of the appraisal acceptance process, the appraiser’s license must be valid and in good standing with the state where the property is located. In support of this verification a copy of the appraiser’s license should be included in each file. In all instances the appraiser’s license must be in effect on the date the appraisal was performed. Any questionable license effective dates listed on the appraisal or other responses pertaining to license effective dates should be referred to Corporate Underwriting Administration

## APPRAISAL REVIEW

An intricate part of the underwriters review process includes a detailed audit of each appraisal for completeness, accuracy and logic. This process is initiated and documented by the use of a required Appraisal Checklist. All items indicated on the appraisal checklist will be part of this audit. Any omissions, deficiencies, errors or questions discovered through this audit will be tracked on the checklist along with the method used to resolve any errors or deficiencies. This can be addressed by contacting the appraiser or AMC directly.

It is the underwriter's responsibilities to communicate with the original Appraiser any findings of incompleteness or questionability and to have the Appraiser make the appropriate corrections. It is our goal through this process to ensure appraisal quality by addressing "cautionary items" that are evidenced in the appraisal report while performing a validation process of appraisal information.

The need for an appraisal review is determined by the underwriter or as dictated by investor requirements. It is not to be used in lieu of an accurate appraisal report but as a reinforcement tool of the appraisal report when needed. If an appraisal review is required the type, (desk or field review) reason and ultimate conclusion must be documented on the Appraisal Checklist. An elevation process is available when results from initial reviews are inconclusive or contradictory – see Appraisal Management for approval. Information that conflicts with the initial report should be shared with the Appraiser for consideration.

Additional resources and Appraisal Reports can be obtained to assist the underwriter review process to determine market trends and public record data. Appraisal review report options include a "Desk Review", "Enhanced Desk Review", or a "Field Review". The type of product used is at the underwriter's discretion which begins with an AVM and elevated to other review products as needed (see note below).

Certain files REQUIRE the use of a field report to validate the initial appraisal, please refer to specific investor requirements in the chart below.

### AMC APPRAISAL REVIEW (UPDATED 04/13/2015)

In accordance with the Interagency Underwriting Appraisal and Evaluation Guidelines, all appraisals for federally related transactions must contain sufficient information and analysis to support the Bank's decision to engage in the credit transaction. As part of the credit approval process the bank should review each appraisal to ensure that they comply with supervisory guidance and internal policies.

Transactions that are exempt from the review process requirement are:

- Transactions involving U.S. government sponsored enterprises (GSEs) – sold directly to Fannie Mae or Freddie Mac\*;
- Transactions that is wholly or partially insured or guaranteed by a U.S government sponsored agency (i.e. FHA, VA and USDA\*)

\*all appraisal requirements directed by the applicable Agency Guide or Automated Underwriting System apply and must be fulfilled to qualify for this exemption.

To assist the bank with the review requirement, ***Effective on September 01, 2015*** our AMC - Property Science will perform a three step QC review process on all conventional loans. The review process is based on a QC Overlay which consists of a 67 Section and Sub-Section review designed to recognize trends that require attention: (1) Automated QC (scrub for discrepancies); (2) Real Estate Analysis (verification of subject's physical characteristics, comparable sales data and sales history); and (3) Licensed Appraiser Review of QC Overlay – which includes an appraiser revision request process and escalation to management as needed.

Note: Property Science's QC review process may not be required if the review requirement is satisfied by a specific program appraisal guideline that requires a review (or CDA) or a full second appraisal.

**APPRAISAL REVIEW – AGENCY REQUIREMENTS: (UPDATED 04-10-2015)**

LTV or CONDITION	REQUIREMENT
All Purposes LTV/CLTV/HCLTV Greater than 80%	<b>Loan Amounts Greater than \$625,500 AND:</b> • A Field Review (Form 1032)
All Purposes LTV/CLTV/HCLTV Greater than 75%	<b>PROPERTY VALUE \$1,000,000 or More AND:</b> • A Field Review (Form 1032)

For additional Government Appraisal Requirements, refer to either the FHA – Valuation Analysis Sections 4150.1 & 4150.2 or the VA Lenders Handbook.

Overview of Review Products:

***Enhanced Desk Review:*** The enhanced desk reviewer performs a re-evaluation of the data and valuation from the original appraisal report, along with an independent comparable search. The report must include additional comparables, as applicable, or must indicate the use of the best comparables available. An Appraiser (with a license level of Certified Residential (AR)) or Approved Nationwide Company must complete the review.

***Field Review:*** Requires a completed Appraisal Field Review Report (Form 2000 for 1-unit properties or Form 2000A for 2-to 4 unit properties) by an Appraiser (with a license level of Certified Residential (AR)) or Approved Nationwide Company. The reviewer must conduct an "exterior only" field inspection of the subject property, and comparable properties used in the report. The review must confirm the data contained in the original report.

\* An elevation process is available when results from initial reviews are inconclusive or contradictory – see Appraisal Management for approval. Information that conflicts with the initial report should be shared with the Appraiser for consideration.

**APPRAISAL VALUE DETERMINATION**

The final appraised value, established by the appraisal validation process, is recorded in the Empower database field (DB107) that is visible in the registration screen and the Loan Status Notification. The appraised value listed on appraisal reports ordered by the Appraisal Department will be entered in the Primary Appraisal or Review Appraisal tabs in the Appraisal Management Screens in Empower. All documentation used to validate or establish a value must be included in the imaged loan file.

**TRANSFER OF APPRAISALS FROM ANOTHER LENDER - (UPDATED 01/14/15)**

This process is available on all agency programs including high balance and Portfolio Product ONLY.

Acceptable Lender/AMC	<ul style="list-style-type: none"> <li>• The original lender must be a bank or mortgage banking entity with investor capabilities;</li> <li>• The transferring lender must be listed as the lender/client on the appraisal report and for the same prospective borrower;</li> <li>• The appraiser was engaged directly by the Transferring Lender through designated authorized AMC; and</li> <li>• The transferring lender cannot be affiliated with the AMC.</li> <li>• The appraisal being transferred is the only appraisal ordered by the lender for the transaction.</li> </ul>
Supporting Documentation	<p>PBM must receive the following documents directly from the transferring lender or AMC ) PBM will not accept the appraisal directly from the customer or any other source):</p> <ol style="list-style-type: none"> <li>1. The original PDF and XML versions of the appraisal;</li> <li>2. The most recent successful SSR – UCDP submission to Fannie Mae and Freddie Mac;</li> <li>3. An Appraisal Transfer Letter (Lender Certification) from the transferring lender acceptable to PBM containing the following information; and</li> </ol>

	<ol style="list-style-type: none"> <li>a. The letter must be on the transferring lenders letterhead;</li> <li>b. The letter must be signed by an officer or manager of the transferring lender; and</li> <li>c. Transferring lender must certify and warrant that they have adopted and complied with AIR requirements and the appraisal was ordered in compliance with those requirements.</li> </ol>
	<ol style="list-style-type: none"> <li>4. The AMC must provide a Certificate of Appraiser Independence. NOTE: a statement that certifies compensation was paid directly to the appraiser is required on the AMC Certificate or Appraisal Transfer Letter.</li> <li>5. An accounting of appraisal fees paid and or due to the Transferring Lender. We must know what the fees are in order to list properly on the GFE and HUD-1.</li> </ol>
Review Requirements	<ul style="list-style-type: none"> <li>• The appraisal cannot be completed by an appraiser that is on PBM’s or the agencies ineligible appraiser list;</li> <li>• A field or desk review will be performed on each transferred appraisal; and</li> <li>• The appraisal review must be completed by a “certified” appraiser;</li> <li>• Review of the initial appraisal and appraisal review is performed by underwriting – documented on appraisal review checklist.</li> </ul>

PBM employees will initiate the following acceptance, review and final documentation process:

Step One – Initial Acceptance	<ul style="list-style-type: none"> <li>• Supporting Documentation is emailed to PBM Appraisal Administration for acceptability review;</li> <li>• A copy of the original appraisal is mailed to the borrower, tracked in appraisal receipt screen and retained in the branch folder; and</li> <li>• A review of the appraisal is ordered by PBM Appraisal Administration from one of PBM’s approved AMC’s. <ul style="list-style-type: none"> <li>○ The cost of the appraisal review will be absorbed by the branch or passed on to the broker, or borrower (timely change of circumstance documentation is required)</li> </ul> </li> </ul>
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	<ul style="list-style-type: none"> <li>• Branch to review GFE and ensure all appraisal fees that are paid or will be paid by the borrower are appropriately listed. On wholesale transactions, selecting a new lender or transferring the appraisal does not meet COC (change of circumstance) criteria. Any additional fees cannot be paid for by the customer or to the mortgage broker on loans with lender paid compensation.</li> </ul>
Step Two – Report Review	<ul style="list-style-type: none"> <li>• A copy of the desk/field review is mailed to the borrower, tracked in appraisal receipt screen and retained in the branch folder; and</li> <li>• A comprehensive review of the full appraisal and review report is performed by the underwriter;</li> <li>• If changes or modifications of the initial appraisal report are required the underwriter can contact the transferring lender and/or AMC for assistance. As a general rule, appraisals are transferred are “as is”. Any minor report corrections are subject to the appraisers and AMC’s discretion. The AMC may need to contact the transferring lender for authorization prior to any changes.</li> <li>• If changes or modifications are made to the initial appraisal report, the branch will request and updated original PDF and XML of the revised appraisal and a successful resubmission SSR – UC DP submission to Fannie Mae and Freddie Mac. This must be obtained prior to advancement to loan documents.</li> <li>• If the transferring lender or AMC is unwell or unable to make the requested changes, a new report must be ordered using PBM’s standardized ordering process.</li> </ul>
Step Three – Final	<ul style="list-style-type: none"> <li>• An appraisal fees must be listed on the HUD-1. This includes the initial appraisal fee and the cost of the appraisal review. Provide detail on the amount and payee, denote POC when applicable.</li> <li>• If appraisal fees are due to transferring lender – a demand for those fees must be provided to escrow.</li> </ul>