PROVIDENT BANK MORTGAGE

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

APPRAISAL UNDERWRITING GUIDELINES
FOR
1-4 RESIDENTIAL UNITS

Annual Effective Date: November 2017

OVERVIEW

In December of 2010, the Federal Reserve Board, Office of the Comptroller or 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.

Six federal financial regulatory agencies issued a final rule that implements minimum requirements for certain appraisal management companies (AMC), the rule became effective on August 15, 2015. Under the rule, states may elect to register and supervise AMCs. The AMC minimum requirements in the final rule apply to states that elect to register and supervise AMCs, as AMCs are defined in the rule. Effective January 1, 2010, California law (Chapter 173, Statutes of 2009) requires the registration of appraisal management companies with the Bureau of Real Estate Appraisers.

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:

A. 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 has established an Appraisal Management Company review, approval and on-going evaluation process.

E. PBM has established accounts with Appraisal Management Companies (AMC) whom are responsible for selecting, retaining and providing compensation for Conventional & FHA Loan Appraisals for PBM Wholesale and Retail Loan Operations. All appraisals completed under the management of an AMC are subject to reviews as listed in the review guidelines of this policy. (modified November 2009)

F. PBM will maintain a list of designated Appraisal Management Company (AMC) to complete the appraiser selection and management processes. AMCs on PBM's list of designated AMCs will be appropriately registered in the State of California.

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

<u>PBM – APPRAISAL ADMINSTRATION DEPARTMENT</u>

Provident Bank Mortgage has formed an Appraisal Administration Department. This department has been primarily established to ensure Appraiser Independence and is overseen by PBM Loan Compliance. The department and its employees are independent from the loan production staff and loan operations. Management is appropriately trained in appraisal completion and appraisal quality requirements.

Review appraisals will be performed by licensed appraisers managed by a designated AMC. The department provides oversight, selection and management of AMC processes and oversight of appraisers utilized by the designated AMC.

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.

The appraisal department may request to have an individual appraiser removed from the AMCs list of appraisers utilized for PBM appraisal orders 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.

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 preformed 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 accountably 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 designated AMC will select and retain an Appraiser directly from the AMCs 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 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

ECOA 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 ANALYSIS (updated 10/31/2017)

When an appraisal is obtained, the underwriter must analyze the

- Current contract for sale for purchase money transactions
- Current offering or listing for sale for both purchase and refinance transactions when the home was listed for sale,
- Comparable sales for both purchase and refinance transactions, and
- Current ownership for the subject property

Provident Bank Mortgage is responsible for validating that

- The property meets Agency, VA and HUD eligibility criteria and;
- The appraiser has provided an accurate and reliable opinion of value that reflects the market value, condition, and marketability of the subject property in compliance with Agency, HUD, and VA requirements.

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 preformed 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 to Value
  Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary for credible assignment results, then the cost approach must be 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 to Value

  The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required in the valuation of two-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

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):** (**updated 10/31/2017**)
- The UAD standardizes appraisal data elements for a subset of fields on specific appraisal report forms and includes all data elements to complete these forms. Fannie Mae and Freddie Mac require that the following appraisal report forms are completed utilizing Appendix D of the UAD Specification when reporting the results of an appraisal for a conventional mortgage loan:
    - UAD – Compliant Forms
        - Uniform Residential Appraisal Report (Fannie Mae 1004/Freddie Mac 70)
        - Individual Condominium Unit Appraisal Report (Fannie Mae 1073/Freddie Mac 465)
        - Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Fannie Mae 1075/Freddie Mac 466)
        - Exterior-Only Inspection Residential Appraisal Report (Fannie Mae/Freddie Mac 2055)*

- **Uniform Collateral Data Portal (UCDP):** (**updated 10/31/2017)**

  The UCDP is a portal through which lenders are required to electronically submit appraisal reports for conventional mortgage loans delivered to Fannie Mae and Freddie Mac. The following appraisal report forms including all exhibits, addenda (including the Market Conditions Addendum to the Appraisal Report (*Form 1004MC*), and photographs, must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to the delivery date of the loan:
    - Uniform Residential Appraisal Report
    - Manufactured Home Appraisal Report
    - Small Residential Income Property Appraisal Report
    - Individual Condominium Unit Appraisal Report
    - Exterior-Only Inspection Individual Condominium Unit Appraisal Report
    - Exterior-Only Inspection residential Appraisal Report

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

Additionally, for loans that require an appraisal, Provident Bank Mortgage must ensure that the appraised value as indicated on the appraisal submitted in UCDP matches the appraised value as reported at delivery. An exception is allowed for this requirement when the appraisal used to underwrite the loan is a desk or field review of an existing appraisal because those types of reports cannot be uploaded to UCDP. In those instances, the appraised value reported at delivery will reflect the value as stated in the desk or field review. However, the original appraisal that was the subject of review must have been submitted to UCDP.

Appraisal report forms not listed above cannot be delivered through UCDP with the exception of the *Appraisal Update and/or Completion Certificate* (Form 1004D/Form 442), which is optional. Provident Bank Mortgage must maintain the applicable appraisal report and attachments in the mortgage loan file as part of the underwriting documents.

- **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 of 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 indentify 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

AGE OF THE APPRAISAL AND APPRAISAL UPDATE REQUIREMENTS **(UPDATED 10/18/2017)**

Age of appraisal reports as of the Note Date

If the effective date of the appraisal report is more than 120 days but not more than 12 months before the Note Date, an appraisal update is required. If the effective date of the appraisal report is more than 12 months before the Note Date, a new appraisal with an interior and exterior inspection is required.

Age of appraisal reports and appraisal requirements as of the Settlement Date

- If the Settlement Date is more than 120 days after the Note Date, PBM must obtain a new appraisal.
- PBM must obtain a new appraisal and determine whether the Mortgage is eligible if:
    - PBM becomes aware of any changes to the Mortgaged Premises that may have an adverse impact to its value, condition or marketability, and
    - The adverse changes occurred after the effective date of the appraisal report but prior to the Settlement Date.

Age of the automated collateral evaluation offer

- An AUS message that offers an appraisal waiver is valid for 120 days. If the offer is more than 120 days old on the Note Date, a resubmission to AUS is required to determine ongoing appraisal waiver eligibility.
- Note: If PBM changes key loan data (address of the property, loan amount, purchase price, estimate of value, loan type, property type, occupancy of the property) in a subsequent submission, the original offer will be invalidated and AUS may provide a different appraisal waiver eligibility determination.

Appraisal update requirements

An appraisal update must be performed and reported as follows:

- An appraisal update reported on Form 442, Appraisal Update and/or Completion Report
- A new appraisal based on an exterior-only inspection and reported on the appropriate form based on the property type, or

- A new appraisal based on an interior and exterior inspection and reported on the appropriate form based on the property type.

The appraiser who provided the opinion of market value, whether from the initial appraisal report, a subsequent appraisal report or an appraisal field review report should perform the appraisal update. However, the PBM may select another approved appraiser who is qualified to perform the appraisal update. 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.

RE-USE OF AN APPRAISAL FOR A SUBSEQUENT TRANSACTION

Agencies 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.
- 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 disaster to the extent that the improvement or deterioration of the property would affect marketability or market value.
- The borrower and the lender/client must be the same on the original and subsequent 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.

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

PROPERTY GUIDELINES

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 primarily residential in nature based on the characteristics of the property and the neighboring market area. .

Unacceptable Properties (**UPDATED 08/31/2017**)

- 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
- Properties used primarily for commercial enterprises (such as bed and breakfasts, Condominium Hotels, boarding houses, etc., and properties or units located in a Planned Unit Development (PUD) operating as a hotel or other type of transient housing)
- Vacant land, undeveloped land or land development properties
- Agricultural properties, such as farms or ranches
- Syndications
- Timeshare
- Houseboats
- "Own-your-own" 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:

<table>
<tr><td>Location of Property</td><td>The subject property must be residential in nature based on the description, zoning and present land use.</td></tr>
<tr><td>Year-Round Use</td><td>Properties in resort areas are only acceptable if they are suitable for year round use.</td></tr>
<tr><td>Accessibility</td><td>All properties must be readily accessible by all-weather roads that meet local standards. Road maintenance agreements requirements may apply.</td></tr>
<tr><td>Utilities</td><td>Utilities are not required to be turned on at the time of the appraisal inspection. PBM requires that the utilities meet community standards.</td></tr>
<tr><td>Multiple Lots/Parcels</td><td>The table below provides the requirements when the security property consists of more than one parcel of real estate.
<table>
<tr><td></td><td>Multiple Parcels Requirements</td></tr>
<tr><td></td><td>Each parcel must be conveyed in its entirety.</td></tr>
<tr><td></td><td>Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.</td></tr>
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<tr><td></td><td><table>
<tr><td></td><td>Each parcel must have the same basic zoning (for example, residential, agricultural).</td></tr>
<tr><td></td><td>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.</td></tr>
<tr><td></td><td>The mortgage must be a valid first lien that covers each parcel.</td></tr>
</table></td></tr>
<tr><td>Rural Properties</td><td>A rural area relates to the country or anything beyond the suburban area, general requirements are:
✓ Zoning must allow for residential use
✓ Primary use must be residential
✓ Any income produced must be incidental and non-commercial in nature</td></tr>
<tr><td>Properties with Acreage (unlimited)</td><td>Properties with Acreage (unlimited) are allowed and must comply with the following:
✓ The appraiser must appraise the entire site for residential use, regardless of the amount of acreage.
✓ Comparable sales should have similar acreage.
✓ 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.

✓ Site description must accurately describe the entire site and any improvements to include any out buildings.
✓ Use of the property must represent a legal, permissible use of the property under local zoning laws.</td></tr>
<tr><td>Unique Properties</td><td>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 Underwriting Administration</td></tr>
<tr><td>Mixed Use Property</td><td><u>Fannie Mae</u>
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.</td></tr>
</table>

<table>
<tr><td>Mixed Use Properties</td><td>The following special eligibility criteria must be met:

The property must be a one-unit dwelling that the borrower occupies as a principal residence.
The borrower must be both the owner and the operator of the business.
The property must be primarily residential in nature and must be typical for the properties in the market
The use must represent a legal, permissible use of the property under the local zoning requirements.
The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property.
The commercial use must not have an adverse effect on the habitability and safety of the property or site.

<u>Freddie Mac</u>
The appraiser must provide the following when appraising a mixed-use property:

An appraisal with an interior and exterior inspection
A detailed description of any accommodations made for the commercial use of the subject property
A discussion of any adverse impacts of the commercial use
A statement describing any market resistance to the commercial use, and adjustments for any commercial features made to the comparable sales

See <u>B-4-1.4-07, Mixed-Use Property Appraisal Requirements</u>, for appraisal considerations for mixed-use properties.</td></tr>
<tr><td>Outbuildings</td><td>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.
<table>
<tr><th>Type of Outbuilding</th><th>Acceptability</th></tr>
<tr><td>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>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>
</table></td></tr>
</table>

	<table><tr><td>An atypical minimal outbuildings</td><td>The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.</td></tr><tr><td>Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals</td><td>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.</td></tr></table>
Properties – previously listed for sale	**(UPDATED 04/25/2017)** **Fannie Mae Only** Properties that were listed for sale must have been taken off the market on or before the disbursement date of the new mortgage loan. • the borrowers must confirm their intent to occupy the subject property (for principal residence transactions). • Copy of cancelled listing agreement* • Good motivation letter from the borrower.
Leasehold Estates	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. The leasehold estate and the improvements must • Constitute real property, • Be subject to the mortgage lien, and • Be insured by PBM's lender's title policy. • **Leasehold properties require an Attorney Opinion letter** • **confirming property meets all FNMA/FHLMC guidelines**
Energy-Efficient Properties	**Freddie Mac** An energy-efficient property uses cost-effective design, construction, materials, mechanical systems, equipment and site orientation to conserve energy in a manner consistent with the area in which the property is located. • If the property has energy-efficient features, the appraiser must identify the features • If energy-efficient features of a property, whether the subject property of comparable sales, affect the value or marketability, the appraiser must make appropriate adjustments to reflect the market reaction to the energy-efficient features.

<table>
<tr><td>Utilities</td><td>Freddie Mac (Updated 12/1/2016)
The utilities serving the subject property must meet community standards. In addition, the comparable sales should have utilities similar to the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum. In addition, the appraisal must evaluate the effect these differences have on the subject property’s value or marketability.</td></tr>
<tr><td>Properties with Solar Panels</td><td><u>Fannie Mae</u>
<u>Properties with Solar Panels</u>
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).

If the solar panels are leased from or owned by a third party under a power purchase agreement or other similar arrangement, the following requirements apply (whether to the original agreement or as subsequently amended)
<table>
<tr><td></td><td>Requirements for Properties with Solar Panels that are leased or covered by a Power Purchase Agreement</td></tr>
<tr><td></td><td>The solar panels may not be included in the appraised value of the property.</td></tr>
<tr><td></td><td>The property must maintain access to an alternate source of electric power that meets community standards.</td></tr>
<tr><td></td><td>The monthly lease payment must be included in the debt-to-income (DTI) ratio calculation unless the lease is structured to
Provide delivery of a specific amount of energy at a fixed payment during a given period, and
Have a productions guarantee that compensates the on a prorated basis in the event the solar panels fail to meet the energy output required for in the lease for that period.
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.</td></tr>
<tr><td></td><td>The lease or power purchase agreement must indicate that
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</td></tr>
</table></td></tr>
</table>

Properties with Solar Panels continued			their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home); and • 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 • In the event of foreclosure, PBM or assignee has the discretion to: - Terminate the lease/agreement and require the third-party owner to remove the equipment; - Become, without payment of any transfer or similar fee, the beneficiary of the borrower's lease/agreement with the third party; or - Enter into a new lease/agreement with the third party, under terms no less favorable than the prior owner.
			Any exceptions to coverage on the title insurance policy for recorded instruments relating to the solar panels must comply with Fannie Mae section B7-2-05, Title Exceptions and Impediments.

Freddie Mac: Properties with Solar Panels (**UPDATED 5/31/17**)

(i) Properties with solar panels owned by the Borrower

If the Borrower owns the solar panels on the property, Underwriters must ensure that the appraiser has recognized the existence of the solar panels, and considered the solar panels in the appraiser's opinion of the market value of the property. Additionally, the property must maintain access to electrical utilities consistent with community standards.

(ii) Properties with solar panels subject to a lease agreement, power purchase agreement(PPA) or similar type of agreement

If the property has solar panels subject to a lease agreement, PPA or similar type of agreement:

- The solar panels must not be included in the appraised value of the property
- The property must maintain access to electrical utilities consistent with community standards; and
- The lease agreement, PPA or other similar agreement must provide that:
    - The owner of the solar panels agrees to not be a loss payee (or named insured) on the homeowners insurance policy covering the property; and
    - In the event of foreclosure, PBM may:
        - Terminate the lease agreement or PPA and require the owner of the equipment to remove the panels and supporting equipment
        - Become the beneficiary of the Borrower's lease agreement or PPA without incurring a transfer fee; or
        - Enter into a new lease agreement or PPA with the owner of the equipment under terms no less favorable than the existing lease agreement or PPA.

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: ▪ Both rental and sales comparables
Individual Condominium Unit Appraisal Report	1073 / 465	Single Units in condominium projects, report must provide: ▪ New Project – comparables: - One or more properties outside the project but within the same market area. - At least one resale within the same project, if available. ▪ Established Project – comparables: - Should have comparables drawn from the subject project, or - Contain an explanation why comparables were drawn from outside.

FANNIE MAE PROPERTY INSPECTION WAIVER (PIW) (**updated 09/26/2017**)

- Eligible transactions:
  - One-unit properties, including condos
  - Principal residence, second home transactions;
  - Investment property refinance transactions
  - Certain purchase, limited cash-out and cash-out refinance transactions; and
  - DU loan casefiles that receive an Approve/Eligible recommendation
- Ineligible transactions:
  - Properties located in a disaster-impacted area
  - Construction and construction-to-permanent loans
  - Two- to four-unit properties
  - HomeStyle Renovation and HomeStyle Energy mortgage loans;
  - DU Refi Plus loan casefiles (will continue to be eligible for the DU Refi Plus property fieldwork waiver)
  - Leasehold properties
  - Community land trusts or other properties with resale restrictions, which include loan casefiles using the Affordable LTV features
  - Co-Op units and Manufactured homes
  - DU loan casefiles that receive an Ineligible recommendation
  - Transactions using gifts of equity

- Furthermore, PBM may not exercise a PIW offer and must order and appraisal if one or more of the following applies:
    - DU was unable to identify ineligible criteria in the list above (for example, HomeStyle Energy);
    - Provident Bank Mortgage is required by law to obtain an appraisal
    - The underwriter is using rental income from the subject property to qualify the borrower; or
    - The underwriter believes that an appraisal is warranted based on additional information he/she has about the property or subsequent events, such as a natural disaster.
    - Provident Bank Mortgage may not exercise a PIW offer if an appraisal is obtained for the transaction.
- Exercising a PIW
    - The final submission of the loan casefile to DU results in a PIW offer
    - An appraisal is not obtained for the transaction, and
    - The PIW offer is not more than four months old on the date of the note and the mortgage

FREDDIE MAC: COLLATERAL REPRESENTATION AND WARRANTY RELIEF – LOAN COLLATERAL ADVISOR® (**UPDATED 08/04/2017, 09/01/2017, 10/18/2017**)

Value – Loan Product Advisor Mortgages

- For a purchase transaction, "value" is the lesser of the appraised value of the Mortgaged Premises on the Note Date or the purchase price of the Mortgaged Premises.
- For a refinance, "value" is the appraised value of the Mortgaged Premises.
- For certain Loan Product Advisor Mortgage transactions, Freddie Mac may accept the "value" to be the PBM-provided estimate of value or the purchase price as the basis for the underwriting of the Mortgage.

Process for qualifying for and accepting the appraisal waiver offer:

- The Underwriter must submit the Mortgage to Loan Product Advisor
- Upon evaluation by LPA, the Last Feedback Certificate must indicate that the Mortgage is eligible for collateral representation and warranty relief with an appraisal waiver (this represents the "offer"); and
- The final submission of the Mortgage to the Selling System must indicate the collateral representation and warranty relief status is "Y" or "Yes"

Eligible Mortgages:

- The Mortgage must have an LTV/TLTV/HTLTV less than equal to 95%
- The Mortgage must be secured by a 1-unit dwelling
- The Borrower must be an individual or a Living Trust
- Upon assessment of the appraisal by Loan Collateral Advisor, the following message and/or indicator must be returned:
    - Uniform Collateral Data Portal® (UCDP®), feedback message FRE0000 indicating the appraisal is eligible for collateral representation and warranty relief

- Loan Collateral Advisor indicator that the appraisal is eligible for collateral representation and warranty relief

Note: Upon submission to Loan Product Advisor and/or Loan Quality Advisor a corresponding collateral representation and warranty relief message will also be provided in the feedback certificate

- The final submission to the Selling System must indicate the collateral representation and warranty relief status is “Y” or “Yes”

Ineligible Mortgages

- Mortgages secured by a Condominium Units
- Mortgages secured by Manufactured Homes
- Mortgages secured by leasehold estates
- Freddie Mac Relief Refinance Mortgages – Open Access

In addition, Provident Bank Mortgage may not accept the appraisal waiver offer if any of the following apply:

- Provident Bank Mortgage is required by law or regulation to obtain an appraisal
- Provident Bank Mortgage is aware of conditions it believes to warrant an appraisal being obtained. Examples include, but are not limited to:
  - The property is located in an area recently impacted by a disaster
  - A contaminated site or hazardous substance exists affecting the property of the neighborhood in which the property is located.

<u>REVIEW APPRAISAL/UPDATE FORMS:</u>

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: • For all 1-4 unit properties • To update an existing appraisal if the property has not declined in value since the original report. Report to include two additional comparables. • To confirm that the requirements or conditions established in the original report have been met. • Photos of the completed property or the repaired area are required. 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.

ADDITIONAL APPRAISAL FORMS

Form	Description
Market Conditions Addendum (Fannie Mae 1004 MC / Freddie Mac 71	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: • Inventory analysis which contains comparable data • Market Sales and list price, day-on-market (DOM), list and sale ratio • Overall Trends • Seller concessions • Foreclosure sales, summary and analysis of data All fields on the form must be completed – including those that appear to be grayed out. Fields that do not apply must be marked N/A.
Single Family Comparable Rent Schedule (Fannie Mae 1007 / Freddie Mac 1000)	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.

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

Interior Photographs of Subject Property	At a minimum, the report must include photographs of the following: • the kitchen; • all bathrooms; • main living area; • examples of physical deterioration, if present; and • examples of recent updates, such as restoration, remodeling, and renovation, if present. **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. **The photos must not contain people or photos of people, either in the subject photos (including street views) or comparison photos.**
Exterior photographs	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. For any comparable sales, if an original photograph cannot be obtained, a clear copy of the photograph of the comparable sale from a multiple listing service (MLS) is acceptable. The appraiser must have provided a reasonable justification for using the MLS source.
Neighborhood Boundaries	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.
Appraiser Certification and Limiting Conditions	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.

	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: • those required by state law; • those related to the appraiser's continuing education or membership in an appraisal organization; or • those related to the appraiser's compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based. 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. 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. Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user: "The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject to the stated score 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."
Scope of Work	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 date collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

Building Sketch and calculations	An Exterior building sketch that indicates dimensions and calculations that demonstrate how the estimate for gross living area is derived. If the floor plan is atypical or functionally obsolete, thus limiting the 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. 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). For 2- to 4-unit properties, the sketch must also include each unit's layout and entries, and indicate the square feet of living area per unit and the gross building area (GBA).
Street Map	The location map must identify the location of the subject property and any comparables including sale, rental and listing comparables as applicable.
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 **05/31/2017 and 8/31/2017**)

Subject Property Identification & Contract Information: The subject section of the appraisal report must identify the subject property by providing a complete property address and legal description, and by identifying the owner of public record for the property. It must identify and describe the location of the subject property, provide information about property taxes and special assessments, occupancy (owner, tenant, or vacant) and transaction information. 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 appraisal report must also state the data source(s) used, offering price(s), date(s) and the days on market for the subject property.

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.

The appraisal report must include the name of the lender (Provident Bank Mortgage) on the lender/client line. Any applicable management company should be reported in the appraiser's certification section of the appraisal report form.

Contract Section: - The contract for sale to include the sale or contract price, date of contract and loan charges to be paid by the property seller, and the financing and sales concessions to be paid by the property seller or any other interested party to the transaction.

The underwriter is responsible for the appraiser being provided the complete contract for sale of the subject property with the appraisal request regardless of whether the appraisal is ordered by Provident Bank Mortgage or another lender. The appraiser must have the necessary and appropriate data sources for the area in which the subject property is located.

The "Contract" section of the appraisal report must include the results of the appraiser's analysis of the contract for sale, the contract price, the date of contract and to acknowledge if the property seller is the owner of public record, and the data source(s) used. The appraisal report must also include the total dollar amount and description of any financial assistance (loan charges, sales concessions, gift or down payment assistance, etc.) to be paid by any party on behalf of the Borrower.

For appraisal reports that are required to be completed using the UAD, the "Contract" section of the appraisal report must also indicate the type of sale for the transaction. Valid UAD sale types include REO sale, short sale, court-ordered sale, estate sale, relocation sale, non-arms length sale and arms-length sale.

Neighborhood Analysis : The neighborhood section of the appraisal report requires the appraiser to identify the neighborhood boundaries; describe the neighborhood characteristics as either "urban", "suburban", or "rural"; describe the percent built-up as either "over 75%", "25-75%", or "under 25%"; describe the growth rate as either "rapid", "stable", or "slow"; and to report on market conditions, housing trends, price and age ranges and present land uses for the properties in the neighborhood.

Neighborhood characteristics: 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.
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 date 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. These 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 force 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.

<u>SITE</u>

Overview	The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. 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.
Site Analysis	The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. For example, the appraiser may not appraise only 5 acres of an un-subdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.
Subject Property Zoning	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 • a legal conforming use, • a legal non-conforming (grandfathered) use, • an illegal use under the zoning regulations, or • that there is no local zoning. 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: • 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 • 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. 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.

Highest and Best Use	Fannie Mae will only purchase or securitize a mortgage that represents the highest and best use of the site as improved. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report. The appraiser determines highest and best use of a site as the reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate. All of those criteria must be met if the improvements are to be considered as the highest and best use of a site. The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant land site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.
Adjoining Properties	The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.
Additional Parcels	The mortgaged premises may consist of more than one adjoining parcel of real estate, but cannot include an adjoining parcel that contains an additional residence. When the subject property includes two or more adjoining parcels of real estate, the site description must accurately describe the land and any improvements included in each of the parcels. In addition, the comparable sales should have adjoining parcels similar to the subject property.

Site Utilities	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). Septic or well system inspections and certifications must be provided if required *by the purchase agreement* or recommended by the appraiser
Off Site Improvements	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. 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. 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.
Special Flood Hazard Areas	Appraisal report forms provide an area for the appraiser to indicate whether the property is located in a Special Flood Hazard Area (SFHA) 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. If the property is in a SFHA as identified by FEMA through the National Flood Insurance Program (NFIP), the appraiser must comment on and consider any impacts this has on the subject property's market value or marketability.

Community-Owned or Privately Maintained Streets	If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction: • responsibility for payment of repairs, including each party's representative share; • default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and • the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners. **Note:** If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still 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.
Environmental	**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 **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

Environmental Continued	• 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. **Lender Requirements** Fannie Mae requires PBM 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 PBM that an environmental hazard exists in or on the property, or in the vicinity of the property. Fannie Mae also requires PBM to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure. PBM 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 an underwriter 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.
Earthquake	Indicate the existence of a Special Studies (Earthquake) area, if any.

Easements	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

General	The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability. 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	PBM 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.

Type of Outbuilding	Acceptability
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.

Additions without Permits	If the appraiser identifies addition(s) that do not have the required permit, the appraiser must comment on the quality and appearance of the work and tis impact, if any, on the market value of the subject property. **Freddie Mac (UPDATED 05/31/17)** If the appraiser notes that additions or alterations were made without required permits, the appraisal report should also contain comments on the quality and appearance of the work. In addition, the appraiser should note special energy-efficient items and adverse environmental conditions.
Accessory Units	Fannie Mae will purchase a one-unit property with an accessory dwelling unit. An accessory dwelling unit is typically an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. Some examples may include a living area over a garage and basement units. Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented. The appraiser is required to provide a description of the accessory unit, and analyze any effect it has on the value or marketability of the subject property. If the property contains an accessory unit, the property is eligible under the following conditions: • The property is one-unit. • There is only one accessory unit on the property; multiple accessory units are not permitted. • The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use. • The borrower qualifies for the mortgage without considering any rental income from the accessory unit. (See B3-3.1-08, Rental Income, for further information.) If it is determined that the property contains an accessory dwelling unit that does not comply with zoning, the property is eligible under the following additional conditions: • The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property. • The use conforms to the subject neighborhood and to the market. • The property is appraised based upon its current use. • The appraisal must report that the improvements represent a use that does not comply with zoning.

	• The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same non-compliant zoning use. (See Fannie Mae Guidelines B4-1.3-04, Site Section of the Appraisal Report, for subject property zoning information.) **Freddie Mac (UPDATED 05/31/2017)** A 1-unit detached property may have an incidental accessory unit that is incidental to the overall value and appearance of the subject property. Examples of such properties include a dwelling with a unit above a detached garage, a dwelling with a guest apartment, or a dwelling with a basement unit. The appraiser must describe the accessory unit, and analyze any effect on the value or marketability of the subject property.
Unique Properties	When appraising unique properties: • 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; • 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 (see B4-1.4-01, Factory-Built Housing: Manufactured Housing). There should be comparables of similar size to the subject property to support the general acceptability of a particular property type. <u>Properties that display questionable or limited marketability must be reviewed and approved by a Corporate Underwriting Administrator.</u>
Remaining Economic Life	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. 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

Property Condition	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.

✓	Requirements
	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. **Note:** Appraisers are not responsible for hidden or unapparent conditions.
	Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as, 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 • items that require immediate repair; and • items where maintenance may have been deferred, which may or may not require immediate repair.
	The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

Infestation, Dampness or Settlement	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.
Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject	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 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.
Requirements for Postponed Improvements	Improvements for the subject property must be complete when the mortgage is delivered to Fannie Mae. However, in some circumstances, Fannie Mae does allow a loan to be delivered prior to improvements being completed. **Requirements for New or Proposed Construction** When the property securing the mortgage is new or proposed construction, the appraisal may be based on either plans and specifications or an existing model home. The table below describes requirements related to properties that are new or proposed construction that are not complete when the mortgage is delivered to Fannie Mae.

<table>
<tr><td rowspan="9">Requirements for Postponed Improvements continued</td><td>✓</td><td>Requirements for New or Proposed Construction</td></tr>
<tr><td></td><td>Mortgages may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that:
• Are part of the sales contract (third-party contracts are not permissible);
• Are postponed for a valid reason, such as inclement weather or a shortage of building materials; and
• Do not affect the ability to obtain an occupancy permit</td></tr>
<tr><td></td><td>A certification of completion must be obtained to verify the work was completed and must:
• Be completed by the appraiser;
• State that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and
• Be accompanied by photographs of the completed improvements</td></tr>
<tr><td></td><td>The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property.</td></tr>
<tr><td></td><td>PBM must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.</td></tr>
<tr><td></td><td>PBM and the borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.</td></tr>
<tr><td></td><td>The completion escrow may not adversely affect the mortgage insurance or title insurance</td></tr>
<tr><td></td><td>Once a certificate of completion is obtained, PBM must release the final draw from the escrow account which should include any funds in excess of the amount needed to pay for completion of the postponed items</td></tr>
<tr><td></td><td>PBM must obtain a final title report, which must not show any outstanding mechanic’s liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, PBM must obtain an endorsement to the title policy that ensures the priority of Fannie Mae’s lien.</td></tr>
</table>

Requirements for Postponed Improvements continued	✓	**Requirements for Existing Construction When there are Minor Conditions or Deferred Maintenance Items that do not affect the Safety, Soundness, or Structural Integrity of the Property**
		If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the safety, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is" and these items must be reflected in the appraiser's opinion of value. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass and are typically due to normal wear and tear. PBM is not required to ensure that the borrower has had this work completed prior to deliver of the loan to Fannie Mae.
		If there are minor conditions or deferred maintenance items to be remedied or completed after closing, PBM may escrow for these items at their own discretion and still deliver the loan to Fannie Mae prior to the release of the escrow as long PBM can ensure that these items to not affect the safety, soundness, or structural integrity of the property.
	✓	**Requirements for Existing Construction When there are Incomplete Items or Conditions that DO affect the Safety, Soundness, or Structural Integrity of the Property**
		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 alterations or repairs. These items can include a partially completed addition or renovation, or physical deficiencies that could affect the safety, soundness, or structural integrity of the improvements, including but not limited to, cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, PBM must obtain a certificate of completion from the appraiser before the mortgage is delivered to Fannie Mae. Although the original appraiser should complete any required certification of completion, PBM may use a substitute appraiser. See B4-1.2-02, Appraisal Age and Use Requirements, for certifications completed by substitute appraisers
		The certification does not need to include photographs of the property unless those that accompanied the original appraisal report are no longer representative of the completed property.

INSPECTION AND CERTIFICATION REQUIREMENTS

If an appraiser observes conditions that require further investigation, the appraiser must make the appraisal subject to an inspection by an appropriate licensed professional. Conditions that may require such inspections include observations of severe cracks in foundation or walls, active infestation, significant water damage and/or wet basements or crawl spaces, or unusual odors from a water source. Any conditions affecting safety, structural soundness or habitability must be repaired before closing.

If the appraisal is made subject to an inspection, PBM must consult the services of an expert, a licensed or certified professional or another person trained in the particular field of concern.

Type of Inspection	When Required	Age of Inspection	Performed By
TERMITE	When the appraiser recommends the inspection in the appraisal report. Required on Loans (except VA IRRRL and FHA streamline)	The inspection must be completed within 90 days preceding the date of the note.	Must be performed by a professional licensed in the respective or related field.
PRIVATE WELL			
SEPTIC SYSTEM			
ROOF			
Any other inspection required by the sales/purchase agreement or appraisal.			

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.

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.

<u>Carbon-Monoxide Detectors – All Loans</u>

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

- 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.

Wholesale and Retail process:

In lieu of 1004D:

- **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.

<u>SALES COMPARISON ANALYSIS</u>

Due Diligence	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. 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.
Selection of Comparable Sales	The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Provident Bank Mortgage 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 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).

Selection of Comparable Sales Continued	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. Provident Bank Mortgage 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. 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 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.
Minimum Number of Comparable Sales	A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate.

Minimum Number of Comparable Sales continued	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.
Age of the Comparable Sales	Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions. 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.
Additional Requirement for New (or Recently Converted Condos, Subdivision, or PUDS	(**UPDATED 01/31/2017)** 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. 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. In the event there are no closed sales inside a new subject project or subdivision because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project or subdivision in lieu of one closed sale. When the appraiser is using two pending comparable sales in lieu of a closed sale, the appraiser must also use at least three closed comparable sales from projects or subdivisions outside of the subject property's project or subdivision.

Additional Requirement for New (or Recently Converted Condos, Subdivision or PUDS continued	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. When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale. **Freddie Mac Only:** Effective with mortgages with application received dates on or after **September 1, 2015** the following applies: For properties located in established subdivisions, units in established PUDs or units in established condominium projects, the appraiser should use comparable sales from within the subject subdivision or project. For properties located in new subdivisions, units in new PUDs or units in recently converted or New Condominium Projects, the appraiser must use comparable sales from within the subject subdivision or project as well as comparable sales in other subdivisions or projects to help demonstrate the marketability of new developments or recently converted projects and the market value of the property. The appraiser must use: • One comparable sale from inside the subject subdivision or project • One comparable sale from outside the subject subdivision or project, and • One comparable sale from inside or outside the subject subdivision or project Comparable sales or resales from within the subject subdivision or project are preferable to comparable sales from outside the subdivision or project provided the builder or developer of the subject property is not involved in the sale transaction. At a minimum, at least two comparable sales must be outside the influence of the builder or developer of the subject property.

Rural Properties	Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property 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.
Use of Foreclosures and Short Sales	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.
Established Subdivisions	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.
Condo Project Types	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.

Project Type	Identification Criteria
Established Condo Project	A project for which all of the following are true: • at least 90% of the total units in the project have been conveyed to the unit purchasers; • the project is 100% complete, including all units and common elements; • the project is not subject to additional phasing or annexation; and • control of the HOA has been turned over to the unit owners.

Condo Project Types continued	New condo project	A project for which one or more of the following is true: • fewer than 90% of the total units in the project have been conveyed to the unit purchasers; • 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; • the project is newly converted; or • the project is subject to additional phasing or annexation.
	Two-to four-unit condo project	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.
	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 B4-2.3-01, Eligibility Requirements for Units in PUD Projects, 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 (UPDATED 1/31/17)

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.

<table>
<tr>
<td>Unique Housing Types</td>
<td>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-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.

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.</td>
</tr>
</table>

Unique Housing Types continued	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 Adjustment Guideline	To qualify as a comparable sale, the underwriter should use the following guideline for the net and gross percentage adjustments: - The dollar amount of the **net** adjustment for each comparable sale should not exceed 15% of the comparable's sales price. - If the adjustments exceed 15%, the appraiser must comment on the reason for not using more similar sales. - The dollar amount of the **gross** adjustment for each comparable sale should not exceed 25% of the comparable's sale price. - 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.
Excessively High Adjustments	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.
Adjustments outside Guidelines	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).
Proximity and Location	The description of the proximity of the comparable sale to the subject property must be specific.
Sales Price	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.
Sales or Financing Concessions	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. Examples or financing concessions include: • Interest rate buy downs or other below-market rate financing; • Loan discount points; • Loan origination fees; • Closing cost customarily paid by the buyer; • Payment of condo, or PUD fees or assessment charges; • Refunds of (or credit for) the borrower's expenses; • Absorption of monthly payments; • Assignment of rent payments; and • Inclusion of non-realty items in the transaction.

Sales or Financing Concessions Continued	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 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. The amount of the negative dollar adjustment for each comparable with sales or financing concession should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing concessions can be relatively typical in a particular segment of the market and still result in 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. 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. If the appraiser's analysis determines that the market's reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable. Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice 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.

Date of Sale/Time Adjustments	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 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	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-grad 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 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

Gross Living Area continued	Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid. 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 lever 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.
Gross Building Area	The gross building area • Is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements; • Is the most common comparison for two-to-four-units properties; • Must be consistently developed for the subject property and all comparables used in the appraisal; • Must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and • Cannot count exterior common areas, such as open stairways. Fannie Mae will accept the use of other comparisons for two-to four unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser • Explains the reasons he or she did not use a gross building area comparison, and • Clearly describes the comparisons that were made.
Over Improvements	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. Improvements can represent an over-improvement for the neighborhood, but still within the neighborhood price range, such as property with an in-ground swimming pool, a large addition or an oversized garage in a market that does not demand these kinds of improvements.

Over Improvements continued	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.

<u>OTHER APPRAISAL REPORT CONSIDERATIONS</u>

Contract Changes After the Appraisal is Completed (updated 11/3/17)

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

- Sales price
- Transaction terms
- Financing concessions
- Seller-paid closing costs,
- Names or initials,
- Closing date, and
- Correction of minor clerical errors such as misspellings.

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

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.

CO Detectors/Smoke Detectors/Water Heaters (updated 9/5/17)
Appraiser is to comment on whether or not the subject has a CO detector, smoke detectors and if the water heater is double strapped. For homes without a CO detector(s), smoke detectors or a properly strapped water heater, the appraiser is to complete the appraisal "as-is" and the underwriter will condition for documentation from the borrower certifying installation according to local code. Photos that clearly depict the CO detector, smoke detectors and double strapped water heater will suffice in lieu of the actual statements.

Appraiser's Comments and Indicated Value in the Sales Comparison Approach
The appraiser must provide appropriate comment(s) reflecting the logic and reasoning for the adjustments provided, especially for the characteristics reported on the appraisal report form between the Sales or Financing Concessions and the Condition line items. A statement only recognizing that an adjustment has been made is not acceptable. When appropriate, the appraiser's analysis should also include narrative comments about a current contract, offering, or listing for the subject or comparable sales, current ownership, and recent prior sales or transfers. Additionally, the appraiser's comments must reflect his or her reconciliation of the adjusted (or indicated) values for the comparable sales and identify why the sale(s) were given the most weight in arriving at the indicated value for the subject property. It should be noted that the indicated value in the Sales Comparison Approach must be within the range of the adjusted sales price of the comparables that are reported in the appraisal report form.

APPROACH TO VALUE

COST APPROACH

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.

C. Land values that exceed the depreciated value of improvements must be discussed and explained.

Freddie Mac Only:

The cost approach to value is required for appraisals of Manufactured Homes. It is not required for appraisals of attached Planned Unit Development or Condominium Units.

The underwriter may request the appraiser to develop and report the cost approach to value when not required for the transaction. The appraiser must develop and report the result of any approach to value that is applicable and necessary for an appraisal, even if the underwriter did not request it. The approach may be appropriate especially when appraising properties that are:

- New or proposed construction
- Under renovation
- Unique because of their styles or construction methods, or
- Have functional obsolescence not typical for the market
-

When the cost approach to value is developed, the appraiser must make proper adjustments for any items detrimental to stability or marketability, such as physical, functional and external depreciation that are not typical for the market.

Appraisals that rely primarily on the cost or income approaches to value in order to estimate market value are unacceptable.

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

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 PREDOMININANT AGE

The appraiser must indicate the age range and predominant age of properties in the subject neighborhood. The age range should reflect the oldest and newest ages for 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.

UNLICENSED AND TRAINEE APPRAISERS (FREDDIE MAC, **updated 9/14/17**)
Freddie Mac permits unlicensed and trainee (or similar classification) appraisers to complete an appraisal in accordance with State law. If an appraisal form is completed by an unlicensed or trainee (or similar classification) appraiser, a supervisory appraiser must sign the appraisal form. A supervisory appraiser is not required to inspect the subject property or comparable sales unless required by State law.

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 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
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:

LTV or CONDITION	REQUIREMENT
All Purposes LTV/CLTV/HCLTV Greater than 80%	**Loan Amounts Greater than $625,500 AND**: • A Field Review (Form 1032)
All Purposes LTV/CLTV/HCLTV Greater than 75% **AND**	**PROPERTY VALUE $1,000,000 or More:** • 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 loan operating system field 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 loan operating system. All documentation used to validate or establish a value must be included in the imaged loan file.

TRANSFER OF APPRAISALS FROM ANOTHER LENDER (**Updated 10/18/2017**)

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

Acceptable Lender/AMC	• The original lender must be a bank or mortgage banking entity with investor capabilities; • The transferring lender must be listed as the lender/client on the appraisal report and for the same prospective borrower; • The appraiser was engaged directly by the Transferring Lender through designated authorized AMC; and • The transferring lender cannot be affiliated with the AMC. • The appraisal being transferred is the only appraisal ordered by the lender for the transaction.
Supporting Documentation	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): 1. The original PDF and XML versions of the appraisal; 2. The most recent successful SSR – UCDP submission to Fannie Mae and Freddie Mac; 3. An Appraisal Transfer Letter (Lender Certification) from the transferring lender acceptable to PBM containing the following information; and a. The letter must be on the transferring lenders letterhead; b. The letter must be signed by an officer or manager of the transferring lender; and 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.
	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. 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 Loan Estimate and Closing Disclosure.
Review Requirements	• The appraisal cannot be completed by an appraiser that is on PBM's or the agencies ineligible appraiser list; • A field or *desk review will be performed on each transferred appraisal; and • The appraisal review must be completed by a "certified" appraiser; • Review of the initial appraisal and appraisal review is performed by underwriting – documented on appraisal review checklist.

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

Step One – Initial Acceptance	• Supporting Documentation is emailed to PBM Appraisal Administration for acceptability review; • A copy of the original appraisal is mailed to the borrower, tracked in appraisal receipt screen and retained in the branch folder; and • A review of the appraisal is ordered by PBM Appraisal Administration from one of PBM's approved AMC's. o 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) • Branch to review Loan Estimate 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. *a CDA may be ordered in lieu of a Desk Review.
Step Two – Report Review	• A copy of the desk/field review is mailed to the borrower, tracked in appraisal receipt screen and retained in the branch folder; and • A comprehensive review of the full appraisal and review report is performed by the underwriter; • 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. • 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 – UCDP submission to Fannie Mae and Freddie Mac. This must be obtained prior to advancement to loan documents. • 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.
Step Three – Final	• An appraisal fees must be listed on the Closing Disclosure. This includes the initial appraisal fee and the cost of the appraisal review. Provide detail on the amount and payee, denote POC when applicable. • If appraisal fees are due to transferring lender – a demand for those fees must be provided to escrow.

HERO/PACE Assessments (UPDATED 1/26/2017 and 1/6/2018)

Fannie Mae and Freddie Mac:

- Not permitted
- Refer to the PBM Manual for "*HomeStyle Energy and Property Assessed Clean Energy Loans*" guidelines (Fannie Mae) and "*LP Open Access*" guidelines (Freddie Mac for refinance of loans with an existing HERO/PACE assessment.

Provident Bank Mortgage Portfolio loans:

- HERO/PACE or any energy efficient liens that are included in the property taxes may remain unsubordinated when doing a Portfolio 5/1 and 7/1 ARM loan with the following requirements:
    - Maximum LTV 75%
    - Impounds required

VA Loans:

- Permitted
- Refer to *VA Purchase and VA Cash-Out and Rate/Term Guidelines, Solar/Energy Efficient Equipment*

FHA Loans:

- For FHA Case Numbers assigned before January 5, 2018:
    - Permitted
    - Refer to *FHA Guidelines, 4000.1 Summary of Guidelines, Solar Panels*
- For FHA Case Numbers assigned on or after January 6, 2018:
    - Not permitted
    - Properties encumbered with PACE obligations will no longer be eligible for FHA-insured forward mortgages in accordance with Mortgagee Letter 2017-18