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## **The timely demise of the MC 1004: A new era for market analysis? - by Bill Pastuszek**

September 14, 2018 - Appraisal & Consulting



Bill Pastuszek  
Shepherd Associates

The GSEs (aka Fannie and Freddie) recently announced that the addendum to the Appraisal Report known as Market Conditions Addendum Form 71, also known as the MC 1004, no longer needs to be included. It was noted that the “appraiser is still required to perform the analysis needed for the report, and sellers may determine whether or not they will continue to use it.”

Good news for residential appraisers? It would seem so. Appraisers have complained about the form since its introduction during the depths of the latest housing crisis.

The form, developed under pressure and within a short time period, was never meant to be a permanent solution to the challenge of market analysis. Eliminating the form may eliminate its tediousness, but are appraisers given a good alternative, a viable replacement?

Forms, while stifling to many practitioners, are the norm in residential appraising. This form “boxed in” appraiser’s analytical ability into pre-conceived time periods and data.

Will there be a flowering of creative and relevant market analyses? We hope so.

The form’s intent was “to provide the lender/client with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood.” Prior to the adoption of this form, appraisers had no structured or uniform format with which to report on market trends and conditions in a subject neighborhood. Most appraisals pre-MC 1004, contain little to no (emphasis on the latter) market analysis. It was, then, a step in the right direction.

The form, while almost universally disliked, did have the effect of making appraisers set forth market trends quantitatively in their reports. The form had some uses in terms of setting forth months of housing supply, a key statistic of the health of a market. True, the form was constraining and some industry thought leaders held the opinion that it violated USPAP: the notion never gained much traction, but there was an element of truth in the reasoning that it may have constrained appraisers’ ability to accurately report market conditions unreasonably.

A lot of appraisers disliked the notion that their opinions might have to be based on quantifying market data. The ability to make arguments – assertions, really - without regard to the facts or the need to perform assignment-specific, in depth, and quantitatively based (as opposed to institutively based) judgments was compromised.

Here’s what Freddie has to say: “The expected scope of work is not changing as the appraiser is still required to perform the analysis necessary to report and consider neighborhood and market conditions. If Sellers continue to require the use of Form 71, we will accept the form and there will be no operational impact.”

One downside. A client can require it even if Freddie doesn’t. Policy is often slow to change. Some users may retain its use. Like many burdensome, unnecessary, redundant and unproductive requirements, its legacy may fall into the “client wants it” category.

Eliminating the form does not release appraisers from their USPAP responsibilities under Standard Rule 1-3 and Standard 2. In fact, eliminating the form may allow many appraisers to provide more focused and relevant market analyses.

Here's is what Standards Rule 1-3 says: When necessary for credible assignment results in developing a market value opinion, an appraiser must: (a) identify and analyze the effect on use and value of existing land use regulations, reasonably probable modifications of such land use regulations, economic supply and demand, the physical adaptability of the real estate, and market area trends...And, the comment says: "An appraiser must avoid making an unsupported assumption or premise about market area trends, effective age, and remaining life." Appraisers are also required to report appropriately, i.e., provide a summary in appropriate detail to meet the requirements of the intended user.

It is a fond hope that appraiser organizations and software purveyors will now embark on some out of the box solutions. It is further hoped that appraisers will work "outside the box" to gain greater facility with quantitative methods to enhance the development and report of the results of market analysis.

So, for the MC1004, remember the song from Wizard of Oz about the Wicked Witch is dead....gone where the goblins go! It's progress if appraisers seize the opportunity to improve this aspect of the appraisal process. It's not progress if residential appraisers sit back and let the appraisal process be dictated to them.

Other news from Fannie and Freddy: Fannie Mae and Freddie Mac will update appraisal dataset and forms. Fannie Mae and Freddie Mac (the GSEs) have launched an initiative to update the Uniform Appraisal Dataset(UAD) and uniform appraisal reporting forms. The UAD and Forms Redesign initiative will leverage extensive stakeholder input to... overhaul the uniform appraisal forms to establish a more flexible, dynamic structure for appraisal reporting. This work is designed to provide greater clarity to lenders, borrowers, and investors; simplify appraisal reporting and reviewing; and build a foundation for appraisal modernization.

Bill Pastuszek, MAI, ASA, MRA, heads Shepherd Associates, Newton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540