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The world according to Fannie Mae: More updates to its appraisal policies

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Fannie Mae has updated its appraisal policies. Most of the appraisal related issues are effective September 1st. Here's an overview.

Inclusion of interior photographs in the appraisal report.

On or after September 1st, interior photos of the following must be provided: kitchen; all bathrooms; main living area; examples of physical deterioration, if present; examples of recent updates, such as restoration, remodeling and renovation, if present. This falls into the category of "about time."

Competency.

"Lenders are reminded that appraisers must have the requisite knowledge to performan appraisal for the specific geographical location and particular property types." While USPAP allows an appraiser who does not have the appropriate knowledge and experience to accept an appraisal assignment by following certain procedures and disclosures, Fannie Mae requires that "lenders only use appraisers who have the appropriate knowledge and experience, and does not allow the USPAP flexibility."

This means you have to be competent before going forth and can't use the assignment to acquire competency (or demonstrate the lack thereof). By setting a higher bar than USUAP, by definition, it will be met with resistance. On its face, it is probably not a bad thing given the industry mindset. This

Verification/Data Sources.

Fannie Mae notes that "appraisal report forms require that the appraiser list both data sources and verification sources with respect to comparable sales selected by the appraiser." The Guide is updated to provide examples of acceptable data and verification sources.

Comparable Sales. Use of Foreclosures, Short Sales, and Builder Sales as Comparable Properties. Appraisers are responsible for determining which comparables are most appropriate for the assignment at hand. Fannie Mae has updated this requirement with respect to using foreclosure or short sales as comparables.

Communication under the HVCC.

Fannie Mae notes that to attempt to comply with HVCC, "some lenders do not allow communication with appraisers and other parties involved in a real estate transaction. Fannie Mae has determined that appropriate communication under the HVCC is permitted." Fannie Mae states that Section 1-C of the HVCC does not prohibit any employee of the lender or an authorized third party from requesting that an appraiser provide additional information or explanation about the basis for a valuation or from correcting objective factual errors in an appraisal report. Valuation pressure is still not allowed.

Market Conditions Addendum to the Appraisal Report (Form 1004MC).

These changes attempt to clarify some misconceptions about this form. "Months of Housing Supply" the "Total # of Comparable Active Listings" should be based on a specific point in time. If a cumulative number of listings during the "Current - 3 Month" time period is used, an artificially high number for the "Months of Housing Supply.") ,may result.

Other issues are also addressed. You can access this information at www.efanniemae.com/sf/guides/ssg/2010annlenltr.jsp

As with most things, the changes are a mix. The changes provide some much needed clarifications and best practices requirements. And, on a positive note, there is hope that the HVCC may go away and something a little bit saner will take its place.

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