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News from Fannie, Freddie and USPAP - by Bill Pastuszek

May 10, 2024 - Appraisal & Consulting



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For residential appraisers: the GSEs continue to publish guidance for residential appraisal practice. Here are some recent excerpts.

Fannie Mae - Reconsideration of Value Guidance (Selling Guide Issuance, May 1, 2024, effective August 1, 2024). Making three key points, the guidance states “We developed a framework for lenders to review and respond to a borrower-initiated reconsideration of value (ROV). The lender’s policies and procedures must include steps for the borrower(s) to appeal an appraisal when they believe the opinion of value is unsupported, is deficient due to unacceptable appraisal practices, or reflects prohibited discriminatory practices.

Further, “regardless of the outcome of the ROV, the lender is responsible for ensuring the appraisal report and opinion of value are reliable, adequately supported, and that the borrower’s concerns with the valuation are addressed in a timely manner.”

Also, “our updated policy includes specific instructions for the borrower disclosure that must be provided at the time of loan application and again upon delivery of the appraisal report as well as lender requirements for reviewing and responding to both the borrower(s) and appraiser. We continue to explore options that would allow us to track ROV activity going forward.”

Freddie Mac - Examples of Unacceptable Appraisal Practices. The following represents a summary of additions to the Selling Guide. Here are the key points of unacceptable appraisal practice.

1. Relying on protected characteristics in developing value opinions;
2. Use of unsupported or subjective terms or statements to assess or rate a property or neighborhood without providing a foundation for analysis and contextual information;
3. Incorporating terminology or veiled language that could indicate underlying bias;
4. Development of an appraisal using inaccurate or incomplete data about the subject property, the neighborhood, the market area or any comparable property used in the appraisal analysis or report;
5. Inclusion of references, statements or comparisons about crime rates or crime statistics, whether objective or subjective, in the appraisal analysis or report;
6. Consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect;
7. Basing the development of an opinion of value on factors that local, State or federal law designates as discriminatory;

8. Reliance in the appraisal on comparable properties not personally inspected by the appraiser when required by the appraisal's scope of work. A personal inspection requires at least a visual inspection of the exterior of the comparable property;
9. Reliance in any appraisal analysis on inappropriate comparable properties, or the failure to use comparable properties that are more similar to or nearer to the subject property without adequate explanation;
10. Use of comparable property data provided by any interested party to the transaction without verification by a disinterested party;
11. Use of inordinate adjustments for differences between the subject property and the comparable properties that do not reflect the market's reaction to such differences, or the failure to make proper adjustments when necessary;
12. Development of an opinion of value and/or marketability conclusions that is not supported by available market data;
13. Breach by the appraiser or supervisory appraiser of a certification or Statement of Assumptions and Limiting Conditions or comparable statements on any Freddie Mac approved appraisal report form or addendum.

A long list but a useful one. For those appraisers conducting their work under USPAP – and note that meeting intended users' - i.e., GSE - requirements that don't violate USPAP are part of appraisers' compliance with USPAP.

USPAP - The 2024 edition provides useful and powerful guidance. The most important change provides an anti-discrimination section in the ETHICS RULE. After several exposure drafts and much discussion, the resulting guidance is well-organized and useful for appraisers, regulators, and users. So far, there is the sense that the Standards Board provided usable guidance, confirming, clarifying, and updating existing obligations with respect to appraiser non-discrimination in all aspects of appraisal practice.

Conclusion. Let's see where the guidance from the GSEs and changes to USPAP takes the profession and interested parties. Understood and implemented correctly, the guidance can only improve appraisal practice. Misinterpreted and misapplied guidance can only add to the confusion that already exists.

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