



Fannie Mae Update

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Disclaimer

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Agenda

Importance of Value

New Policies

Case Studies

Prohibited factors or subjective language

Collateral Underwriter® Risk Flags

Image Recognition

Questions



Fannie Mae®

Appraisal Case Studies May 2023

Importance of Value



Importance of Value

Loan to value ratio (LTV) is a fundamental driver of our business

Risk management is our cornerstone

Loan Eligibility

Loan Pricing

Mortgage Insurance

Credit Risk Transfer

Loss Prevention

Loss Mitigation

Appraisals are the foundation of how we manage collateral risk



In Case You Missed It ...

March 1, 2023, *Selling Guide* update

<https://singlefamily.fanniemae.com/media/33551/display>

- **Value acceptance** replaces the term “appraisal waiver.”
- **Value acceptance + property data** is a new option that requires collection of subject property data in conjunction with value acceptance.
- **Hybrid appraisals** are only allowed on an exception basis.
- **Alternative methods** to the Form 1004D.



The modern valuation spectrum

Fannie Mae is on a journey of continuous improvement to make the home valuation process more efficient and accurate.



Value acceptance

Data, model, and technology driven

Value determination

Appraisal driven



Value acceptance
(appraisal waiver)



**Value acceptance +
property data**

New



Hybrid



Desktop



Traditional

Automatic value certainty with
rep and warrant relief

Value certainty with rep and warrant relief
from a CU[®] score of 2.5 or lower

What is Property Data Collection?

The Property Data Collection (PDC) consists of a standardized interior and exterior inspection requiring the comprehensive capture of property data, images, and floor plan using intuitive mobile technology.

Requirements

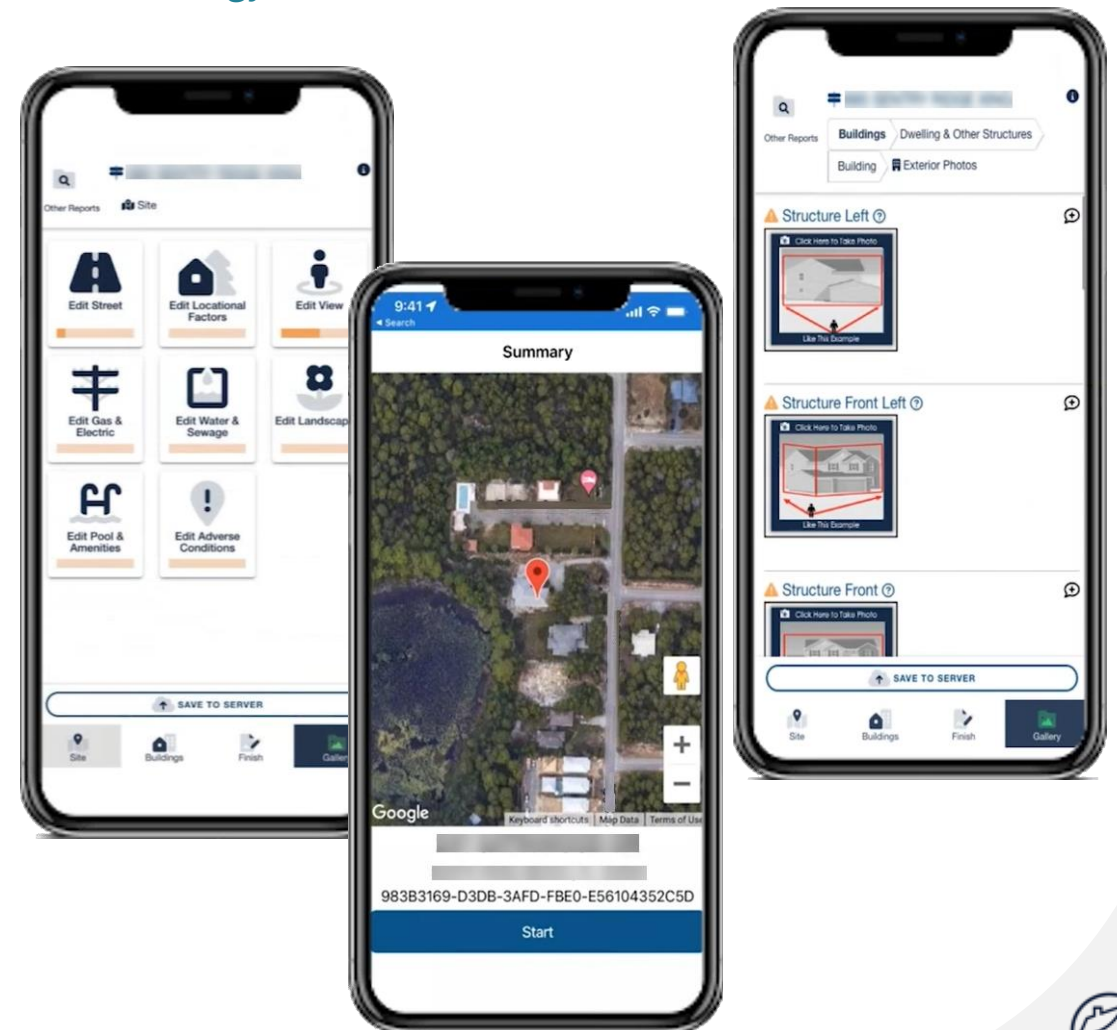
- 120 data points describing the property
- 40-60 photos (minimum standards for image resolution, light level, and clarity)
- ANSI compliant floor plan

Property Data Standard & API

- [Property Data API Resources](#)

Process Flow

- Lender requests PDC from Service Provider, who engages field associate (this could be an appraiser)



Opportunities for Appraisers

Appraisers are well-suited to perform property data collections

The concept of property data collection is not new for appraisers. It is similar to the observations made by appraisers when visiting the subject property to perform a traditional appraisal.

Diversifying your business may be as simple as signing up with a technology provider, learning to use their app, and starting to receive orders.

Enjoy field work? Property data collection lets you specialize in that while eliminating the need to develop an opinion of value.



Hybrid Appraisal

Exception basis only – see *Selling Guide* B4-1.2-03 for more information

What this is not:
Not a broad launch

A hybrid appraisal is not allowed except under one scenario:

1. Desktop Underwriter notifies the lender that the loan application is eligible for value acceptance + property data
2. The lender obtains property data and submits it to the Fannie Mae API
3. The loan loses eligibility due to a change in qualifying loan characteristics

Then, the lender may provide the property data to an appraiser to inform a hybrid appraisal assignment.



Common misconceptions

- Confuse rebranding of appraisal waiver with a change in strategic direction
Fact: This is just a rebrand to better represent the actual process
- Assume that we are retiring appraisals altogether
Fact: Most loans continue to get appraisals
- Believe that appraisers are not allowed to perform property data collection
Fact: Appraiser skill set is well-suited for property data collection
- Think our published list of service providers is closed
Fact: We continue to add new vendors and accept new applications
- Interpret this as a broad launch of hybrid appraisals
Fact: DU does not offer hybrid appraisals; they are only allowed in exceptional situations



Misconceptions

Some concepts need more clarity



Property Data Collectors are not vetted.

To ensure consumer protections, the lender must verify and be able to demonstrate that data collectors are vetted through an **annual background check**, professionally trained, and they possess the essential knowledge to competently perform the property data collection.



Property data collectors will come back with a number that can't be rebutted because they are unregulated.

A data collector does **not** provide an opinion of value.



Misconceptions



PDCs check out structural items with no guidance

Fannie Mae has established a property data standard and API to collect data and images consistently. The process encourages the use of emerging technologies to capture property information, imagery, and floor plans.

Review the [Value Acceptance + Property Data Fact Sheet](#) for more details.



Appraisers are bound by the guidelines of Fannie Mae and Freddie Mac, but property data collectors are not

The data collected must adhere to Fannie Mae's Property Data Standard. Once the PDC is collected it must also pass quality control checks by the lender and Fannie Mae.

Refer to [Property Data Resources](#)

<https://singlefamily.fanniemae.com/property-data-resources>



Property data collection process has no standards to follow

The data collection must adhere to Fannie Mae's Property Data Standard. Once the PDC is collected, it must pass quality control checks.

Refer to [Property Data Collection User Guide V6](#)

<https://singlefamily.fanniemae.com/media/document/pdf/property-data-collection-user-guide-v6>



Case Studies



Prohibited Factors and Subjective Terms

Selling Guide B4-1.1-04, Unacceptable Appraisal Practices

“**development of a valuation** conclusion based... on the sex, race, color, religion, disability, national origin, familial status, or **including a reference to any protected class ...**”

“use of unsupported assumptions, interjections of personal opinion, or perceptions ... and the **use of subjective terminology**, including ... pride of ownership, no pride of ownership, ... poor neighborhood; good neighborhood; crime-ridden area; desirable neighborhood or location; or undesirable neighborhood or location...”

We use text recognition technology to scan appraisals for prohibited and subjective language, then validate the results with human reviews.



Subjective Terms

Would you include this?

“THE CITY IS GENERALLY A WORKING-CLASS COMMUNITY, WITH SOME MIDDLE-CLASS NEIGHBORHOODS AND **POOR NEIGHBORHOODS.**”

“THIS NEIGHBORHOOD IS **HIGHLY DESIRABLE ...**”

Subjective phrases or terms used in an appraisal are evidence of a non-objective valuation process and indicate the possibility of discriminatory bias in determining a property's value.

Eliminate subjective words and phrases.



Only Use Supporting Data

How was this factored into the opinion of value?

“THE U.S. GOVERNMENT AND THE LOCAL TRIBES SIGNED A TREATY IN 1855. THE TRIBES HAD FISHING RIGHTS FOR THOUSANDS OF YEARS BEFORE THE CAUCASIAN INVASION”

**Fannie Mae’s *Selling Guide* Section B4-1.3-03 states:
Certain other factors that are not appraisal factors,
such as the racial or ethnic composition ...
must not be considered in the valuation process.**

**Only include information in the report that is used
to develop the opinion of value or is required by
law or policy.**



Prohibited Language

Would you include this?

“According to the CFPB reports. Black and Hispanic families are more than twice as likely to report being behind on housing payments than white families.”

Any words or phrases that could be perceived as commenting on the racial or ethnic make-up of a neighborhood, or what type of families live in the neighborhood, should be avoided.

Do not reference protected class information.



Protected Class: Race

Don't do this.

“While the neighborhood is still predominantly African-American, the area is undergoing a demographic shift as new homeowners (mostly Caucasian, Asian families), who work in nearby Culver City, Downtown Los Angeles, Santa Monica and other job hub areas are moving into the neighborhood”

Any words or phrases that could be perceived as commenting on the racial or ethnic make-up of a neighborhood, or what type of families live in the neighborhood, should be avoided.

Do not reference protected class information.



Protected Class: Religion

Don't do this.

“LOCAL SHOPPING AND OTHER SERVICES ARE LOCATED ALONG PAGE BOULEVARD WHICH IS ABOUT 0.5 MILE NORTH OF THE SUBJECT. INTERSTATE 270 WHICH PROVIDES ACCESS TO EMPLOYMENT CENTERS IN THE ST. LOUIS METRO AREA IS APPROXIMATELY ONE MILE WEST OF THE PROPERTY. THERE IS GOOD ACCESS TO OTHER MAJOR ROADWAYS, SCHOOLS, PARKS AND HOSPITALS FROM THE SUBJECT. THE ST. LOUIS **JEWISH COMMUNITY CENTER** CAMPUS IS 0.25 MILE EAST.”

Any words or phrases that could be perceived as commenting on the racial or ethnic make-up of a neighborhood, or what type of families live in the neighborhood, should be avoided.

Do not reference protected class information.



Protected Class: Sexual Orientation

“The city is home to a sizable **LGBT population** as well as winter vacationers, who frequent its many nightclubs and **gay-owned businesses** along the main street, Wilton Drive; the 2010 U.S. Census reported that it is second only to Provincetown, Massachusetts in the proportion (15%) of **gay couples** relative to the total population (couples as reported to the U.S. Census). It contains a **large Pride Center, the World AIDS Museum and Educational Center**, and a branch of the Stonewall National Museum & Archives, whose main facility is in neighboring Fort Lauderdale. The mayor, Gary Resnick, **refers on his official biography to his male partner**. While most of the **gay guesthouses** are to be found in neighboring Fort Lauderdale, a growing number are being established in Wilton Manors. A city web page highlights **LGBT life** in Wilton Manors, stating that "the City of Wilton Manors Police Department conducts police training that is geared toward **working with the City's LGBT population and has gay and lesbian officers amongst its ranks**." As of the 2018 elections, **all members of the city commission are LGBT** ...

“Many of the businesses in the arts and entertainment district are **LGBT-owned** and/or operated, and "The Drive" has become a local, regional, and **national destination for LGBT tourism**.”

Any words or phrases that could be perceived as commenting on the racial or ethnic make-up of a neighborhood, or what type of families live in the neighborhood, should be avoided.

Do not reference protected class information.



Comparable Selection Case

Subject: attached townhome, pocket subdivision, age 38, 1554 sf site

Appraised Value: \$209,000

Front View



Street View



Selected Comparables

Newer, end units

Comparable 1 (Age 8, Lot 2614 sf, \$187,000)



Comparable 2 (Age 5, Lot 3485 sf, \$265,000)



Comparable 4 (Age 4, Lot 5734 sf, \$209,900)



Comparable 3 (Age 35, Lot 939 sf, \$210,000)



Comparable Overview

Selling Guide: “Appraisers must use comparable sales that are the most locationally and physically similar to the subject property.”

- Appraiser’s comparable sale(s) were in other towns and counties
- No sales from subject subdivision were used
- Several sales from a similar pocket development 0.75 mile away were not used

Legend:



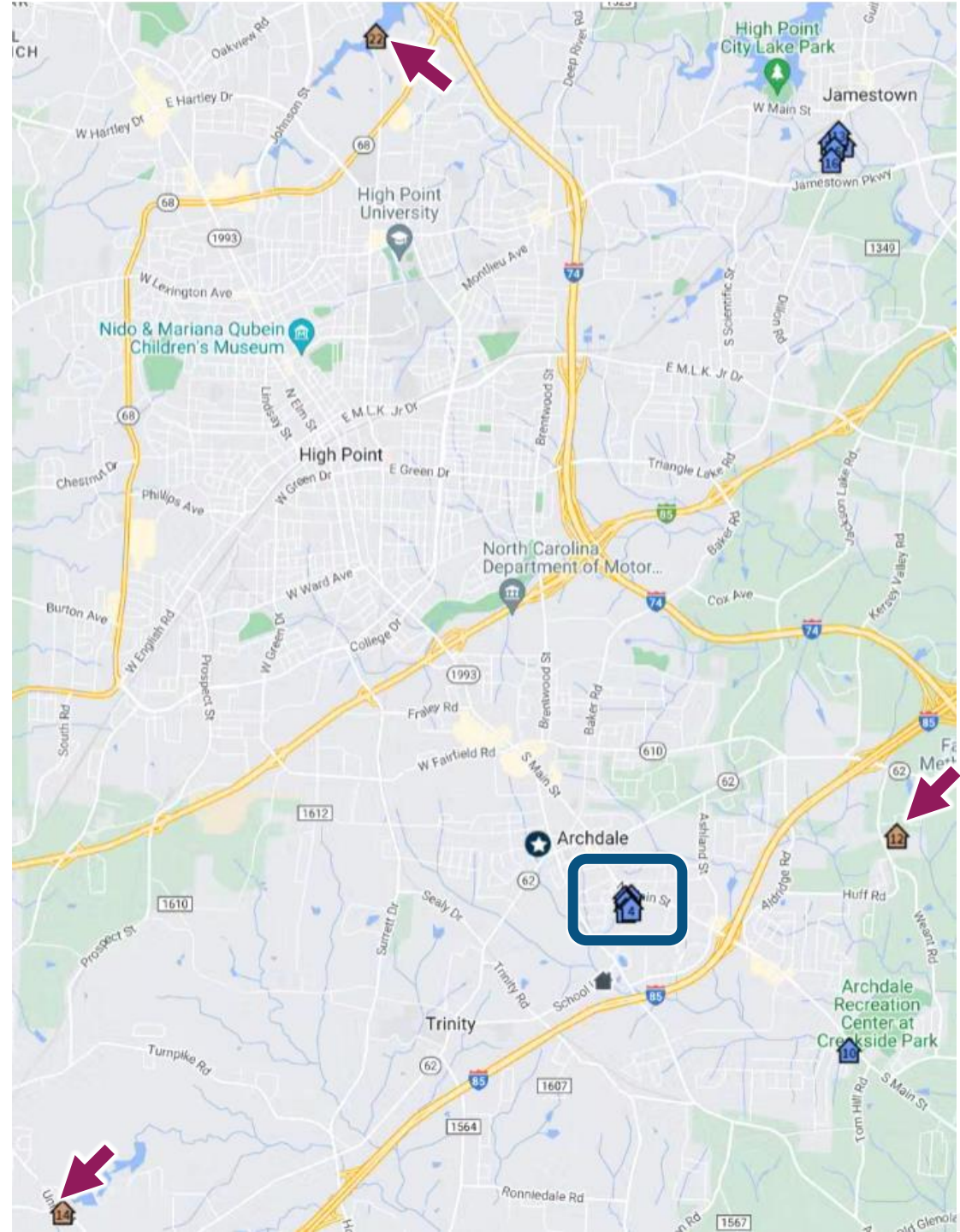
Subject Property



Appraiser-selected Comp
(also model-selected)



Model-selected Comp



Competing Comparables

First 6 are same Q&C and closer in age.

Legend:

- ★ Subject Property
- 🏠 Model-selected Comp



	Lot	Age	Eff Date	Amount
Subject	1554	38	03-27-2021	\$209,000
Comp 1	1307	20	02-28-2021	\$150,000
Comp 2	1307	17	09-30-2020	\$130,000
Comp 3	1307	20	09-30-2020	\$148,000
Comp 4	1307	18	08-31-2020	\$150,000
Comp 5	1307	18	05-31-2020	\$136,500
Comp 6	1307	19	08-31-2020	\$143,900





Subject Development

18 units

	Lot	Age	Eff Date	Amount
Subject	1554	38	03-27-2021	\$209,000
Comp 1	1742	37	09-30-2020	\$130,000
Comp 2	1307	37	10-31-2019	\$104,500






Case Study: Undervaluation Risk Flag (UVF)

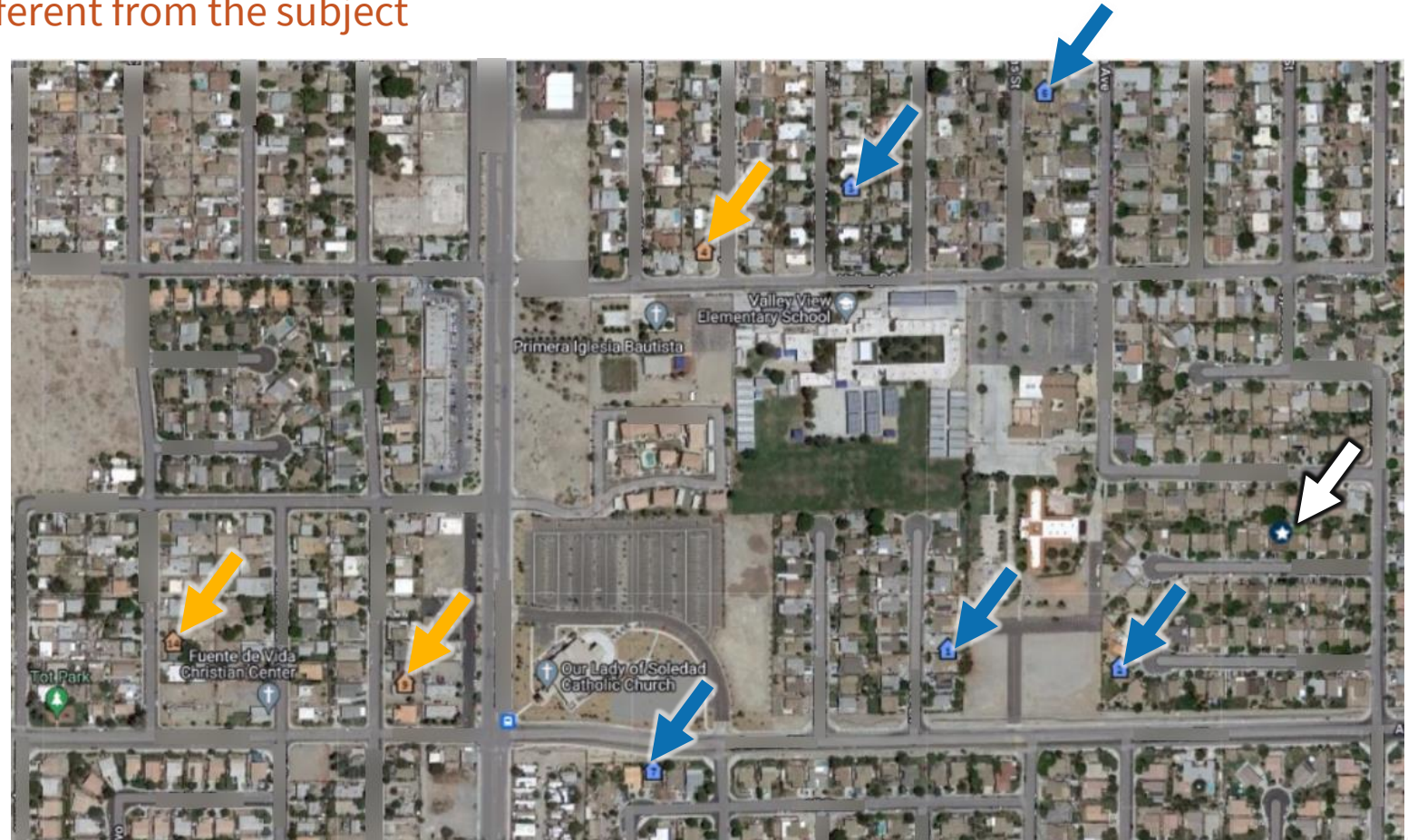
The subject is on a cul-de-sac street in a homogeneous residential neighborhood. Comparable sales used in the appraisal are geographically different from the subject

One is adjacent to a busy road and non-residential property.

The other two are located across a busy road in an area where properties appear to be more varied (based on the roof lines and apparent lot sizes) than properties located in the subject and model comparable areas.



Legend:


-  Subject Property
-  Appraiser-selected Comp (also model-selected)
-  Model-selected Comp



Comparing the Comparables

Legend:

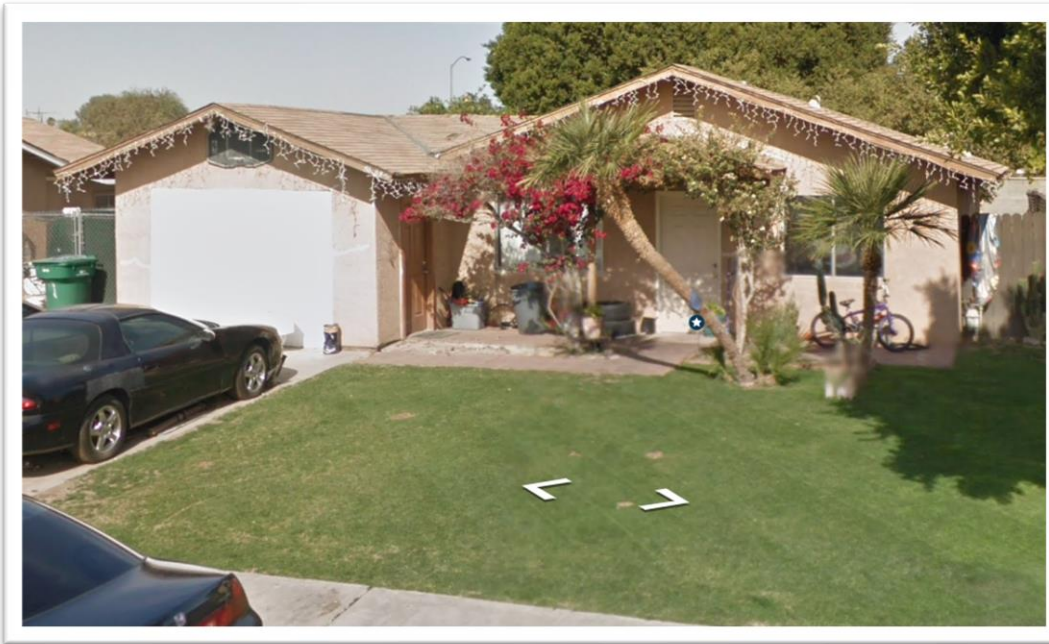
-  Subject property
-  Single-Family Model & Appraisal Comp

Prop	Rank	Dist	↑ Cond	Qual	Gla	Lot	Type	Age	Bds	Bths	Bs Tot	Bs Fin	Attch	Prk	Lev	Traff	Vw	Loc	Date	Amount	Appr Adjst
	--	--	C5	Q3	988	6098	AL	33	2	1	--	--	DT	1	1	1	N	N	01-13-2022	\$158,000	\$158,000
		0.19	C4	Q4	1040	5663	AL	29	3	1.1	--	--	DT	1	1	1	N	N	10-31-2021	\$295,000	
		0.34	C4	Q3	1110	6534	AL	49	3	1.1	--	--	DT	--	1	2	N	N	11-30-2021	\$190,000	\$158,000
		0.35	C4	Q4	1120	6098	AL	51	3	2	--	--	DT	--	1	2	N	N	12-31-2021	\$259,000	
		0.27	C3	Q4	1120	6098	AL	51	3	1.1	--	--	DT	--	1	2	N	N	12-31-2021	\$285,000	
		0.29	C3	Q4	1120	6098	AL	51	3	1.1	--	--	DT	1	1	2	N	N	09-30-2021	\$297,000	
		0.36	C4	Q4	1060	6098	AL	26	3	2	--	--	DT	2	1	2	N	N	08-31-2021	\$310,000	
		0.48	C5	Q3	576	6098	AL	57	1	1	--	--	DT	--	1	2	N	N	12-31-2021	\$110,000	\$158,000
		0.71	C4	Q4	1090	9148	AL	41	3	2	--	--	DT	2	1	2	N	N	10-31-2021	\$315,000	
		1.69	C4	Q4	1100	6098	AL	18	3	2	--	--	DT	2	1	2	N	N	12-31-2021	\$306,000	
		1.27	C4	Q4	1030	5227	AL	37	3	1	--	--	DT	1	1	2	N	N	08-31-2021	\$255,000	
		0.60	C3	Q3	906	9148	AL	62	2	1	--	--	DT	1	1	2	N	N	06-30-2021	\$240,000	\$158,000

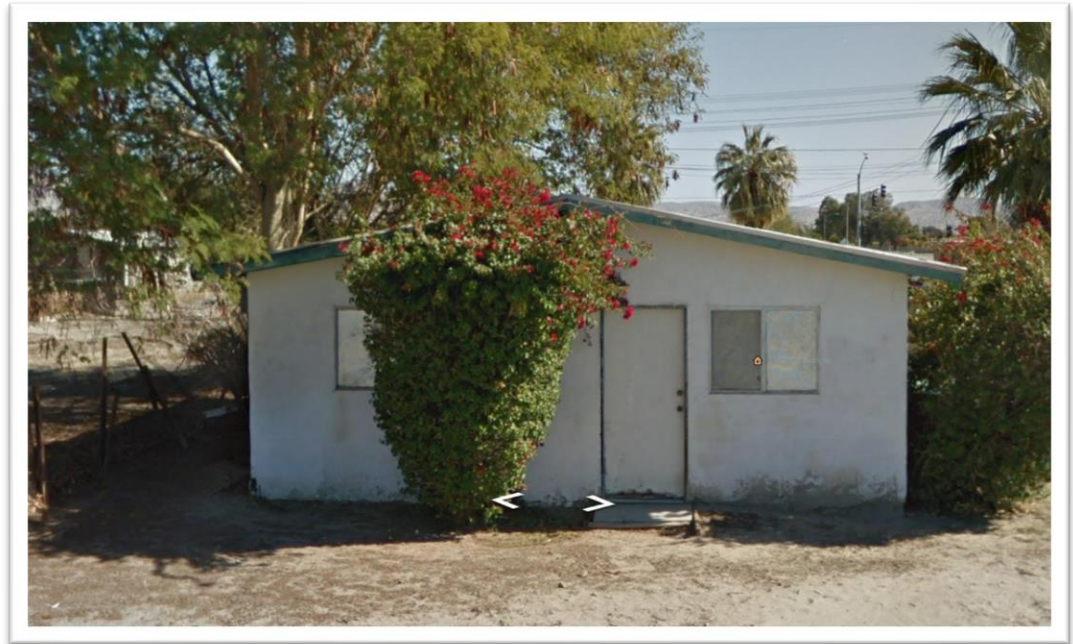


The photo to the left is a street-level view of the subject property. The photo to the right is a view of the front of one of the comparable sales provided by the appraiser, which is almost half the size, **lacks a garage, and is inferior** in construction and appeal.

Why did the appraiser use a comparable sale that is so significantly different from the subject when there were alternative sales that were more similar?



Subject

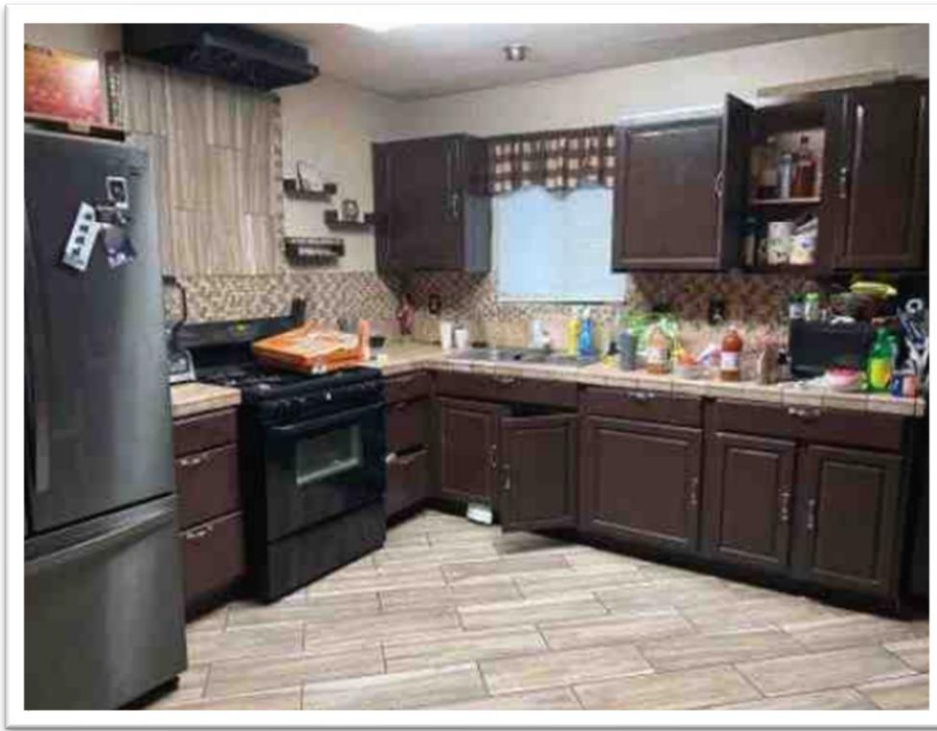


Appraisal Comparable Sale

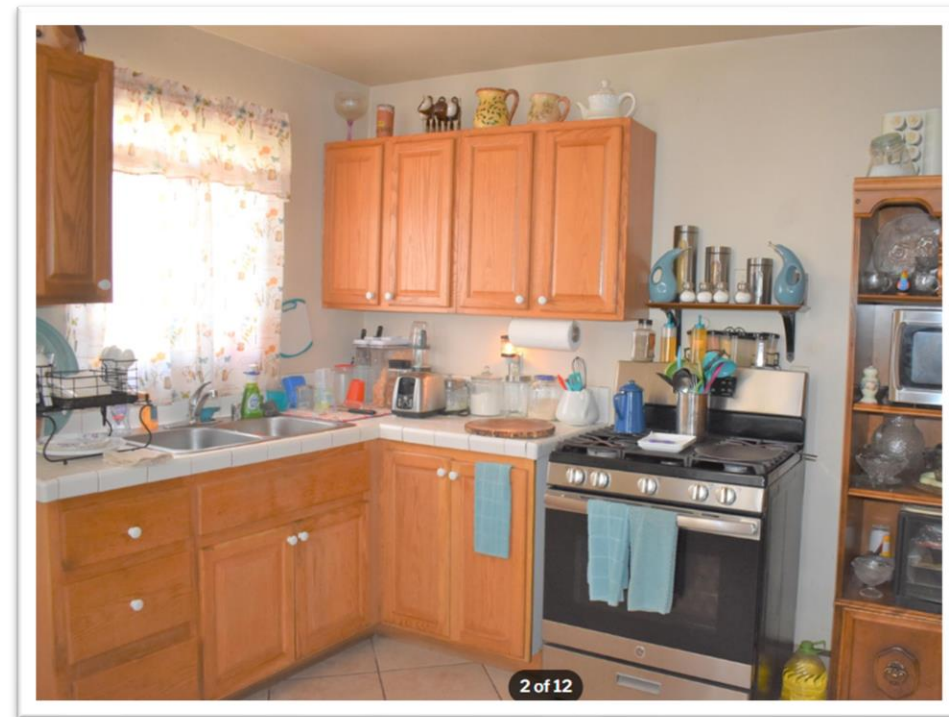


CU contains MLS photos that can be used to validate quality and condition ratings. The appraiser rated the subject condition as C5 but, based on photos (see kitchen below for example), a higher rating is warranted. The appraiser made a \$37k downward adjustment to the comparable, but side by side comparison of the photos in CU shows that the two are equal condition and no adjustment is warranted.

Inaccurate condition ratings resulted in inappropriate condition adjustments for all comparables used in the report, supporting the risk of undervaluation.



Subject



Appraisal Comparable Sale



Condition Rating Case

Subject is 51 years old, maintained but not remodeled, rated C3 by appraiser.

Appraised value is \$435,000 based on comparables that were also rated C3.



Subject vs sale 1 exterior

Subject rated C3



Comparable 1 rated C3



Subject vs sale 1 kitchen

Subject property



Comparable 1

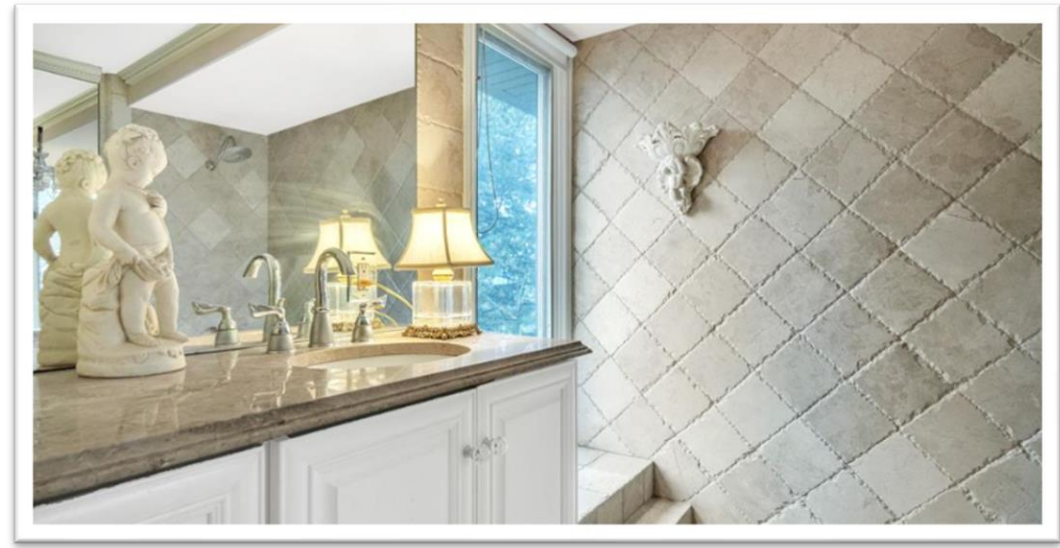


Subject vs sale 1 bathroom

Subject property



Comparable 1



Subject vs sale 2 exterior

Subject rated C3



Comparable 2 rated C3

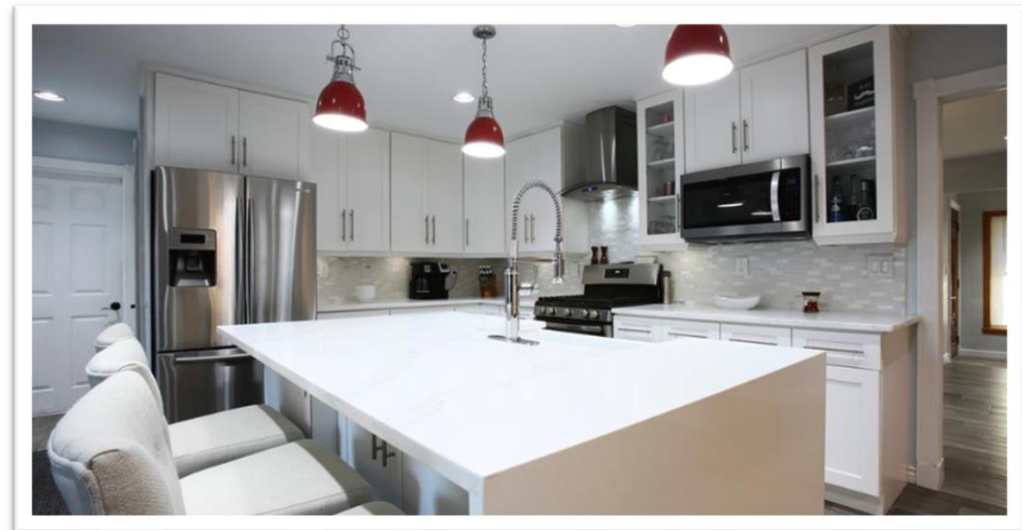


Subject vs sale 2 kitchen

Subject property



Comparable 2



Subject vs sale 2 bathroom

Subject property



Comparable 2



Subject vs sale 4 exterior

Subject rated C3



Comparable 4 rated C3

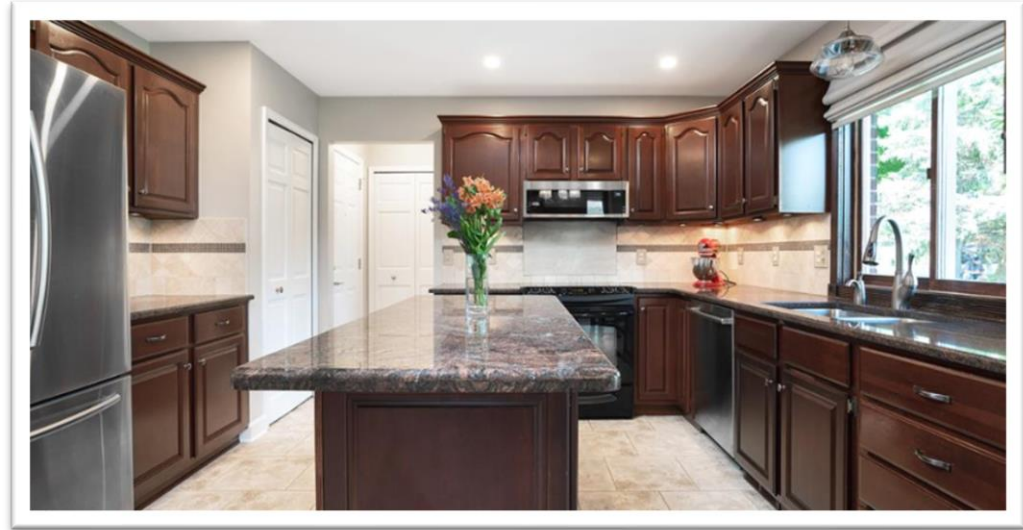


Subject vs sale 4 kitchen

Subject property



Comparable 4

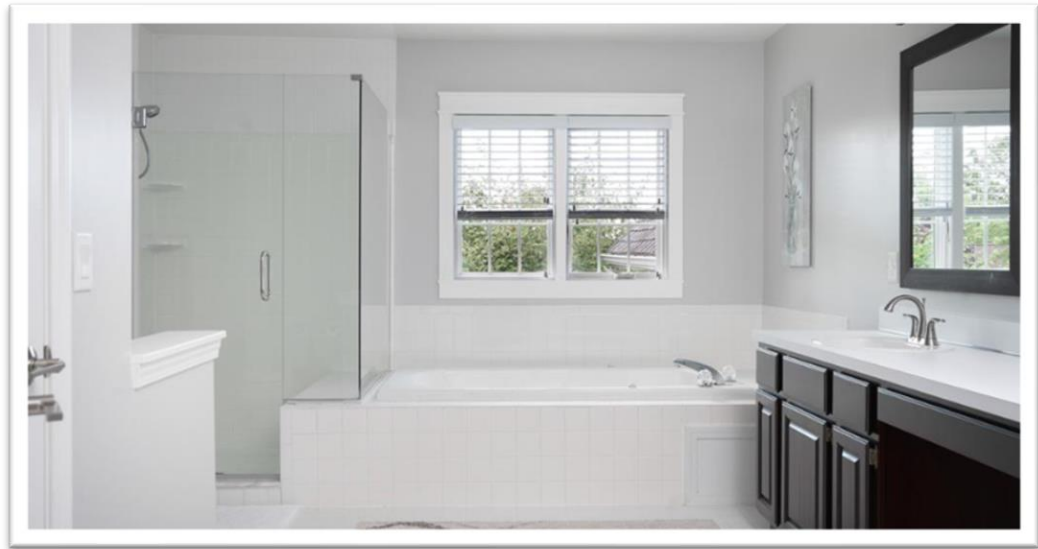


Subject vs sale 4 bathroom

Subject property



Comparable 4



Impact on Value

Dist	Cond ↓	Qual	Gla	Lot	Type	Age	Bds	Bths	Bs Tot	Bs Fin	Attch	Prk	Lev	Traff	Vw	Loc	Date	Amount
--	C4	Q4	2602	13720	AL	51	4	2.1	738	664	DT	2	2	2	N	N	05-12-2022	\$435,000
0.62	C4	Q4	2520	17424	AL	51	5	2.1	1090	--	DT	2	2	2	N	N	04-30-2022	\$365,000
0.27	C4	Q4	2060	14810	AL	45	3	2	1550	960	DT	2	1	2	N	N	01-31-2022	\$362,000
0.59	C4	Q4	2530	13939	AL	51	4	3	2530	--	DT	2	1	2	N	N	12-31-2021	\$335,000
0.60	C4	Q4	2230	14375	AL	53	4	3	750	600	DT	2	2	2	N	N	11-30-2021	\$340,000
0.98	C4	Q4	2560	15682	AL	48	4	2.1	780	580	DT	2	2	2	N	N	01-31-2022	\$345,000
0.48	C4	Q4	2200	13504	AL	50	4	2.1	6870	--	DT	2	2	2	N	N	06-30-2021	\$290,500

CU reveals **six** sales that are similar to subject in many respects including C4 ratings.

They range in price from \$290k to \$365k.



Questions



Additional Valuation Modernization Resources

Scan me



**To access more valuation
modernization resources**

Links:

[Fannie Mae Valuation Modernization site](#)

[Contact Us](#)



Additional Resources

Still have questions? Contact us online:

<https://singlefamily.fanniemae.com/appraiser-contact-us-form>

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