

Announcement 05-02

March 24, 2005

Amends these Guides: Selling

Final Appraisal Report Forms

Part XI: Property and Appraisal Analysis Guidelines

In Lender Announcement 04-07 dated November 8, 2004, we released a total of eleven test appraisal and appraisal review report forms for a comment period that ended on December 15, 2004. We received hundreds of comments on how to further improve the quality of those forms. We would like to thank the many lenders, appraisers, and organizations that took the time to share their significant recommendations with us, especially the Appraisal Institute, the Appraisal Standards Board of The Appraisal Foundation, the Manufactured Housing Institute, the Association of Appraiser Regulatory Officials, the Appraisal Subcommittee of the National Association of Realtors, the American Guild of Appraisers of the AFL-CIO, the National Association of Independent Fee Appraisers, and the state appraiser licensing and regulatory boards. With that feedback, we made several improvements and are now releasing the eleven final report forms:

- ***Uniform Residential Appraisal Report*** (Form 1004 dated March 2005) for an appraisal of a one-unit property (including an individual unit in a PUD project) based on an interior and exterior property inspection;
- ***Exterior-Only Inspection Residential Appraisal Report*** (Form 2055 dated March 2005) for an appraisal of a one-unit property (including an individual unit in a PUD project) based on an exterior-only property inspection;
- ***Manufactured Home Appraisal Report*** (Form 1004C dated March 2005) for an appraisal of a one-unit manufactured home (including a manufactured home in a PUD, condominium or cooperative project) based on an interior and exterior property inspection;
- ***Individual Condominium Unit Appraisal Report*** (Form 1073 dated March 2005) for an appraisal of an individual condominium unit based on an interior and exterior property inspection;

- ***Exterior-Only Inspection Individual Condominium Unit Appraisal Report*** (Form 1075 dated March 2005) for an appraisal of an individual condominium unit based on an exterior-only property inspection;
- ***Individual Cooperative Interest Appraisal Report*** (Form 2090 dated March 2005) for an appraisal of an individual cooperative unit based on an interior and exterior property inspection;
- ***Exterior-Only Inspection Individual Cooperative Interest Appraisal Report*** (Form 2095 dated March 2005) for an appraisal of an individual cooperative unit based on an exterior-only property inspection;
- ***Small Residential Income Property Appraisal Report*** (Form 1025 dated March 2005) for an appraisal of a two-unit to four-unit property (including a two-unit to four-unit property in a PUD, condominium or cooperative project) based on an interior and exterior property inspection;
- ***Appraisal Update and/or Completion Report*** (Form 1004D dated March 2005) for appraisal updates and/or completion reports for all one-unit to four-unit appraisal reports;
- ***One-Unit Residential Appraisal Field Review Report*** (Form 2000 dated March 2005) for appraisal field reviews for one-unit appraisal reports; and
- ***Two- to Four-Unit Residential Appraisal Field Review Report*** (Form 2000A dated March 2005) for appraisal field reviews for two-unit to four-unit appraisal reports.

These report forms are a continuation of our efforts to improve the property appraisal process that led to the development of the property valuation component of Desktop Underwriter® (DU). At that time, we developed more concise appraisal report forms, offered an exterior-only property inspection option, and reduced the amount of required appraisal report documentation. Lenders that have used the DU appraisal forms report reductions in the amount of time and costs as compared with using the standard appraisal report forms. Our focus then and now is to give lenders access to a streamlined property valuation process, which enables them to more efficiently manage the overall valuation process while maintaining property appraisal and underwriting quality.

In revising the forms, we consolidated the number of appraisal report forms in order to simplify our documentation requirements for lenders and appraisers. In addition, we have applied the more streamlined approach and reporting formats of the DU appraisal report forms to all of the revised forms. The more consistent presentation of the appraiser's research, analysis, and conclusions will help appraisers more clearly present the results of their valuation, and will enhance the lender's review of the appraisal.

We now have one appraisal report form for reporting an appraisal for each property and inspection type for both DU and manually processed mortgages. As a result, lenders and appraisers are now able to determine which report form should be used based on the type of property and property inspection required. The form changes also further our efforts to work with the state appraiser licensing or regulatory boards. As part of our quality assurance efforts, we refer unacceptable appraisal reports to the state boards for an investigation and any action they consider appropriate. We have received feedback from many state boards

and their investigators about the types of information that would help them in their investigations. Many of those observations helped us to identify the strengths and weaknesses of the report forms and provided us with the framework for consolidating and improving the forms.

Our final appraisal report forms dated March 2005 are required for appraisals performed on and after November 1, 2005. Lenders and appraisers may continue to use our existing appraisal report forms or the test forms released in 2004 until October 31, 2005. All of our standard applicable exhibits that are used to support an appraisal based on the particular property inspection type are required when using these report forms.

You may download a copy of each of these report forms by accessing this Announcement on our Web site www.efanniemac.com. Once on the home page, under Single-Family Quick Access, select Guides, then Guide Announcements, and then All 2005 Guide Announcements.

Overview of Key Modifications

The primary enhancements to the report forms are designed to help communicate our expectations for the property valuation and appraisal reporting processes, clarify the appraiser's accountability for the quality of his or her appraisal, and help ensure the appraiser's compliance with our requirements and those of the Uniform Standards of Professional Appraisal Practice.

The revised format enables the appraiser to report the results of the valuation in a brief but comprehensive manner, which will be more efficient for reviewing and processing than our existing forms. Also, the expanded areas for comments throughout the forms should help to eliminate the need for additional addenda and attachments. Direct questions have been added to the report forms that require the appraiser to report his or her analysis and conclusions on key areas in a clear and succinct yes/no format to address whether:

- the subject property is currently offered for sale or if it was offered for sale in the twelve months prior to the effective date of the appraisal;
- the appraiser analyzed the contract for sale for the subject property for a purchase money transaction;
- the subject property has any adverse physical deficiencies or conditions such as (but not limited to) needed repairs, and whether such conditions affect the livability, soundness, or structural integrity of the property;
- the subject property generally conforms to the neighborhood; and
- the appraiser researched, analyzed and reported on the sale (or transfer) history for the subject property and comparable sales.

Each of the revised appraisal report forms includes the purpose of the appraisal, scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions, and appraiser's certification. The appraiser's certification on each of the revised appraisal report forms was expanded to more clearly communicate our expectations of the appraisal and appraisal reporting process. In addition, new certifications were

developed to:

- affirm that the appraiser has the appropriate knowledge and experience to appraise the particular type of property in the market area;
- clarify the permitted disclosure or distribution of the appraisal report and the parties that may rely on the appraisal report as part of a mortgage finance transaction; and
- acknowledge that any intentional or negligent misrepresentation may result in civil liability and/or criminal penalties including, but not limited to, fine or imprisonment or both.

Overview of New Report Forms

The *Manufactured Home Appraisal Report* (Form 1004C dated March 2005) is a new, streamlined appraisal report form for reporting an appraisal of a manufactured home. The *Manufactured Home Appraisal Report Addendum* (Form 1004C dated June 2003) has been retired. The revised Form 1004C will be more efficient for reporting the results of the appraiser's research, analysis, and conclusions and for the lender's review of the appraisal report.

The *Appraisal Update and/or Completion Report* (Form 1004D dated March 2005) is a new, multi-purpose report form for any one-unit to four-unit property. It can be used to update an existing appraisal if the property has not declined in value since the date of the original appraisal report, and/or to confirm that the requirements or conditions established in an appraisal report have been met. The use of Form 1004D will help to ensure, in a standardized manner, that the appraisal update and/or certification of completion will meet our requirements and those of the Uniform Standards of Professional Appraisal Practice.

The *Two- to Four-Unit Residential Appraisal Field Review Report* (Form 2000A dated March 2005) is a new appraisal field review report for two-unit to four-unit properties. It is designed to complement the revised *Small Residential Income Property Appraisal Report* (Form 1025 dated March 2005), which is a streamlined appraisal report form for two-unit to four-unit properties. It features a more user-friendly comparable rental data analysis, subject property rent schedule, and sales comparison analysis with adjusted as well as unadjusted units of comparison.

Uniform Standards of Professional Appraisal Practice

The valuation analysis performed in conjunction with our appraisal report forms is based on the sales comparison approach to value because that generally is the most reliable indicator of value for one-unit to four-unit properties. In order to reduce the time and costs associated with performing the appraisal, we do not require the appraiser to develop the cost and income approaches to value for all appraisal assignments.

Appraisals reported on our report forms are considered limited appraisals that are subject to the Departure Rule of the Uniform Standards of Professional Appraisal Practice (USPAP) if the cost and income approaches to value are applicable under the USPAP and they are not developed. An appraisal reported on our forms, however, will be considered a complete

appraisal when the cost and income approaches to value are not applicable because the omission of those approaches for the particular type of appraisal assignment is not a departure from the USPAP. We have identified in the appraiser's certification on certain appraisal report forms that the cost and/or income approaches to value were not developed, unless otherwise noted in the report, which is an approach that complies with the USPAP. The Appraisal Standards Board of The Appraisal Foundation has clarified that appraisers are not required to identify an appraisal as "limited" or "complete" in the report. However, the appraiser is required to disclose in the appraisal report any departures from the USPAP, such as the valuation approaches not developed, that would be applicable to the particular appraisal assignment.

Fannie Mae will continue to have its own separate appraisal requirements to supplement the minimum requirements of the USPAP to ensure that all of our specific concerns are addressed for any given appraisal. The appraisal report forms reflect our requirements, which are supplemental standards to the minimum requirements of the USPAP. An appraiser will be in full compliance with our requirements if he or she addresses all of the information on the report forms and presents the data accurately and completely.

Although the extent of the appraisal process is reflected in the appraisal report forms, the forms are not designed or intended to limit the appraisal process. As with all appraisal report forms, appraisers should go beyond any limitations of a particular form by reporting any additional research or analysis they have performed, and any additional conclusions they may have, as necessary or helpful to adequately document the valuation process and/or to support the appraisal. The extent of the appraiser's research, analysis, and reporting is determined by the complexity of the appraisal assignment.

Lenders who have questions about this Announcement or the forms should contact their Customer Account Team.

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