

**Freddie Mac Single-Family Seller/Servicer Guide (988767) / Single-Family Seller/Servicer Guide, Volume 1 / Chs. 39-45: Property Eligibility / Chapter 44: Appraisal Reports, Inspection Reports and the Property Inspection Alternative (PIA) (01/01/06) / 44.3: General requirements for appraisal and inspection reports (06/01/08)**



### **44.3: General requirements for appraisal and inspection reports (06/01/08)**

#### **(a) Seller selection of appraisers and appraiser independence**

Unless specifically indicated otherwise, for convenience, all references to appraisals and appraisal reports in this section also include inspection reports, and any other type of collateral assessments.

The appraisal or inspection report must be signed by an appraiser that the Seller has approved. A Seller may not sell a Mortgage to Freddie Mac if the appraisal or inspection report is made for anyone other than the Seller or Mortgage originator.

The appraiser must be impartial and unbiased. The appraiser may not have any present or contemplated future interest in the subject property. In addition, neither current nor future employment or compensation for performing the appraisal or inspection may be contingent on the results reported by the appraiser.

Sellers must ensure that the individuals underwriting the appraisals and collateral are independent of loan production staff. If independence is not feasible due to the small size of the Seller's staff, the Seller must have the appropriate controls in place to assure independence.

#### **(b) Seller representations and warranties regarding appraisal and inspection reports**

With respect to each appraisal or inspection report, the Seller represents and warrants that:

1. All information known to the Seller that may affect the estimate of value or marketability has been provided to the appraiser in conjunction with the appraisal or inspection request
2. It has reviewed the report and has concluded that the Mortgaged Premises is adequate security for the Mortgage, in accordance with the requirements of Section 22.2
3. The report complies with the applicable requirements in this chapter
4. The report is of professional quality and supports all of the appraiser's assumptions, data, analyses, rationale and conclusions that were relied on in estimating the value and addressing the marketability of the Mortgaged Premises
5. The information in the report is accurate, internally consistent, written in clearly understandable language, fully supported and sufficiently documented

Deficient appraisal or inspection reports will be considered a breach of the Seller's warranty as to the acceptability of the Mortgage and will subject the Seller to the remedies available

to Freddie Mac. In addition to reviewing the appraisal or inspection report submitted by the Seller, Freddie Mac may make property inspections and/or other investigations to assure property eligibility and proper underwriting of the Mortgages offered for sale to and sold to Freddie Mac.

**(c) Market value definition**

An appraisal report must be based on the following definition of market value:



The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus.

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

1. Buyer and seller are typically motivated
2. Both parties are well informed or well advised, and each acting in what he considers his own best interest
3. A reasonable time is allowed for exposure in the open market
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto, and
5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale

Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar-for-dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

The market value estimate of the subject property must not include value assigned to furniture or any other personal property.

**(d)**

**Detrimental conditions**

On appraisal or inspection reports, the appraiser must note the presence of detrimental conditions, such as expansive soils, underground mines or subsidence in the immediate area of the subject property. In addition, the appraiser must note any evidence of dampness, infestation or abnormal settlement observed in the subject property and call for correction of the observed condition or professional inspections to determine the seriousness of the condition. The appraiser must also consider the effect of such conditions in estimating the subject property's market value and/or any effect on marketability.

For any appraisal report that is made subject to inspections or conditions due to detrimental conditions, the Seller must include in the Mortgage file evidence of corrective action as called for by the Inspector or appraiser (such as an exterminator's certificate, engineer's report or satisfactory completion certificate) dated before the Delivery Date of the related Mortgage to Freddie Mac. (See also Section 44.14 for completion certificate requirements.)

**(e) Maximum financing**

Effective June 1, 2008, Section 44.3(e) is deleted.

**(f) Statement of Assumptions and Limiting Conditions, and Appraisers' Certifications**

The Statement of Assumptions and Limiting Conditions, Appraiser's Certification and Supervisory Appraiser's Certification are incorporated into each appraisal and inspection report form. Modifications or deletions to these are not permitted. However, additional certifications that do not constitute material alterations to the report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

**(g) Owner of Record**

When a new appraisal is required, the Seller must verify:

- For purchase transactions:
- The property seller listed on the sales contract is the Owner of Record of the subject property or
- If the transaction involves the sale of land separate from the dwelling, the property seller listed on the sales contract for the land is the Owner of Record for the land.
- For refinance transactions, the Borrower is an Owner of Record of the subject property.
- For transactions that involve the payoff of a land contract, the property seller is the vendor on the recorded land contract and the Owner of Record of the subject property; and the Borrower is a vendee on the recorded land contract.

If the property seller for purchase transactions or the Borrower for refinance transactions is not the Owner of Record, the Seller must investigate the circumstances of the transaction to ensure that the transaction is legitimate. The Seller must retain documentation evidencing the verification or legitimacy of the transaction in the Mortgage file. Such documentation may include, but is not limited to, the appraiser's analysis and conclusions in the appraisal report, a property sales history report, a copy of the recorded deed, a copy of a property tax bill, or the title commitment or binder indicating the legal ownership of the property.

**(h) Automated Valuation Model (AVM)-assisted appraisals**

When performing an inspection or appraisal, the appraiser may use AVMs as a tool to develop market data or to identify potential comparable sales. In order to use an AVM, the appraiser must understand what data the model uses and how the model analyzes the



## **Fannie Mae Seller Guide (2007 Edition)**

### **Part XI: Property and Appraisal Guidelines**

#### **XI, 102.03: Property Flipping (11/08/04)**

We believe the likelihood of fraud or misrepresentation increases when the lender is not able to confirm that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information. Therefore, we are modifying our policy to require the lender to confirm and document in the mortgage file that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property when a new appraisal is required. Examples of acceptable documentation include, but are not limited to, the appraiser's analysis and conclusions in the appraisal report, a copy of a recorded deed or mortgage, a recent property tax bill or tax assessment notice, a title report, a title commitment or binder, or a property sale history report. This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and/or "back-to-back," "simultaneous," or "double" transaction closings (or double escrows) to support the property acquisition, financing, and closing.

As part of the loan origination process, it is critical for the lender to analyze and review the sale(s) of the subject property and the sale price trend in relation to the appraiser's opinion of value to confirm that they are reasonable and representative of the market.

We believe that confirming and documenting the current owner of the property based on publicly available information as part of the loan origination process will help to ensure a more meaningful analysis of the sale (or transfer) history of the subject property. This policy modification will ensure that lenders and their appraisers understand the quality and timeliness of, identify time gaps in, and assess the accuracy of, their data sources.