



Fannie Mae®

Multifamily Selling and Servicing Guide

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Section 202 Appraisal and Valuation

202.01 Appraisals

202.01A Appraiser Selection

Requirements

You must:

- document the selection and approval of an Appraiser, who is:
 - a Certified General Appraiser (or licensed or certified per state law, if that state does not use the Certified General Appraiser designation);
 - listed in good standing on the state roster per Title XI of FIRREA; and
 - actively prepares multifamily appraisals in the Property's market;
- require the Appraisal to:
 - be in a narrative format, using only objective factors;
 - be signed by the Appraiser;
 - be certified by the Appraiser to conform with current USPAP requirements; and
 - comply with:
 - Instructions for Appraisers ([Form 4827](#)); and
 - any governmental regulations in effect when the Mortgage Loan was originated, including
 - FIRREA,
 - all fair lending laws, and
 - all fair housing laws;
- provide the Appraiser all applicable documents needed to accurately assess Property's value, including:
 - the most recent PCA Report, or any other inspection reports (e.g., a structural engineering report);
 - a rent roll dated within 60 days of the Appraiser's inspection date;
 - Property operating statements detailing
 - income and expenses for the previous year (if available, for the



previous 2 years), and

- year-to-date income and expenses;
- your sample of residential leases reviewed;
- copies of any:
 - executed commercial leases, including all amendments and attachments;
 - ground leases;
 - easements or regulatory agreements; and
 - any purchase/sales contracts executed within 3 years before the Appraisal date;
- any Environmental Site Assessments;
- architectural plans, if the Property is not yet completed;
- site plans/surveys, if available;
- for a Moderate Rehabilitation Property, details of the
 - capital expenditures incurred, and
 - total construction costs; and
- any information that may affect the Appraiser's estimate of the Property's value; and
- not accept any Appraisal completed by an Appraiser selected, retained, or compensated by:
 - the Borrower;
 - the Sponsor;
 - any Key Principal;
 - any Guarantor;
 - for an acquisition, the seller or any related party; or
 - any third party, including Mortgage Loan
 - Brokers, or
 - Correspondents.

Guidance

If final reports are unavailable, you may send draft versions of the



- PCA Report, and
- Environmental Site Assessments.

If the final reports differ materially from the drafts sent to the Appraiser, you must:

- forward the final reports to the Appraiser; and
- inquire whether the Appraisal should be updated based on the final reports.

202.01B Permissible Appraiser Communications

Requirements

When communicating with an Appraiser, you must comply with the Appraiser Communications table.

Appraiser Communications	
You may...	You must not...
<ul style="list-style-type: none"> • obtain supporting information for a specific market, including: <ul style="list-style-type: none"> - sales or rental comparable properties; - rent or expense data; - capitalization rate data; - recent sales; or - price per unit or square footage ranges; • provide all documents needed to accurately assess the Property's value per this Chapter; • share or request additional supporting comparable property information; and • request additional documents supporting the Appraiser's conclusions. 	<p>provide any Mortgage Loan data, such as</p> <ul style="list-style-type: none"> • LTV, • DSCR, • amount, or • Underwritten NCF.

202.01C Valuation Date

Requirements

Valuation Date	
If the Appraisal Date is more than...	You must...



Valuation Date	
6 months before the Commitment Date	Instruct the Appraiser to update the Appraisal per Instructions for Appraisers (Form 4827).
12 months before the Commitment Date	Order a new Appraisal.

Guidance

You may be required to obtain a new or updated Appraisal if Fannie Mae determines the market deteriorated between the

- Appraisal Date, and
- Commitment Date.

202.01D Appraisals Ordered by Another Lender

Requirements

If you Deliver a Mortgage Loan with an Appraisal prepared by an Appraiser selected by another lender, you must:

- make all representations and warranties to Fannie Mae regarding the Appraisal; and
- confirm it complies with this Guide.

202.01E Lender Appraisal Review

Requirements

Your employees must:

- review and approve each Appraisal for adequacy and compliance; and
- ensure the Appraisal includes:
 - an accurate description of the Property and the market, including:
 - the Property's complete legal description;
 - any information you provided the Appraiser;
 - color photographs of the Property's
 - exterior,



- interior common areas,
 - typical unit interiors,
 - surrounding area,
 - rental comparables,
 - sales comparables, and
 - commercial rental comparables;
- maps showing the Property's location relative to the location of the
 - land comparables,
 - current rental comparables,
 - future rental comparables, and
 - sales comparables;
- qualifications of the
 - Appraiser, and
 - any supervising Appraiser; and
- a copy of your
 - complete signed engagement letter with the Appraiser, and
 - communications with the Appraiser regarding the Appraisal scope;
- an opinion of the Property's value per [Part II, Chapter 2: Valuation and Income, Section 202.02A: Appraised Value](#), and supported by
 - market data,
 - logical analysis, and
 - sound professional judgment;
 - an opinion of the Property's insurable value; and
 - an industry standard form of Appraisal appropriate for the Mortgage Loan's
 - size, and
 - structure.

You must:



- return any report to the Appraiser that:
 - is incomplete; or
 - lacks credibility; and
- ensure your Appraisal review:
 - is documented in the Transaction Approval Memo;
 - is accompanied by all other Appraisals you ordered on the Property during the past 3 years; and
 - includes all information per the following Appraisal Analysis table.

Appraisal Analysis	
For...	You must...
Market Conditions	Confirm the Appraisal accounts for current market conditions, including <ul style="list-style-type: none">• supply and demand dynamics,• interest rates, and• economic factors.
Data Accuracy	Verify the Appraisal's data accuracy, including <ul style="list-style-type: none">• Property details,• recent sales prices, and• relevant market data.
Property Inspections	Determine if the Appraiser conducted a thorough inspection of the Property, including random sampling of occupied and vacant units per Instructions for Appraisers (Form 4827).



Appraisal Analysis	
Sales/Rental Comparable Analysis	<ul style="list-style-type: none"> • Determine if the Appraiser used appropriate comparable properties similar in: <ul style="list-style-type: none"> - size and/or unit count (on both a per-unit and a per-square foot basis); - type (e.g., high-rise, mid-rise, garden, etc.); - age; - condition; - in-unit finishes; - amenities; - location, including <ul style="list-style-type: none"> ▪ market, ▪ submarket, and ▪ distance to subject; and - sales of comparable properties, with at least 1 <ul style="list-style-type: none"> ▪ being a listing/pending sale, or ▪ sold within 24 months of the Appraisal Date. • If appropriate comparable properties were not used, either: <ul style="list-style-type: none"> - coordinate with the Appraiser to obtain additional comparable properties; or - provide the Appraiser additional comparable properties from Appraisals <ul style="list-style-type: none"> ▪ for any prior transactions you originated within the last 12 months before the Appraisal Date, or ▪ from any external data sources verifiable by the Appraiser.
Market Rents and Expense Analysis	<p>If the Appraiser's proforma income or expenses substantially differ from the Property's income and expenses used to calculate the Underwritten NCF, provide additional supporting comparable property data or rationale supporting your conclusions.</p>



Appraisal Analysis	
Capitalization Rate Analysis	Provide your assessment that the capitalization rate: <ul style="list-style-type: none">• supports your final Underwriting Value; and• is within comparable capitalization rates compared to<ul style="list-style-type: none">- your portfolio data, or- any other external data sources you use to review appraisals.
Value Reconciliation	<ul style="list-style-type: none">• Review how the Appraiser reconciled the values obtained from different approaches to determine the final opinion of value.• Document your assessment.

For each Appraisal, you must ensure all:

- [Potential Red Flags for Mortgage Fraud and Other Suspicious Activity](#) were considered and the review documented in the Transaction Approval Memo; and
- unresolved red flags were reported per [Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 308: Compliance](#).

202.01F Subsequent Appraisals

Requirements

For any Mortgage Loan, you must not order, obtain, use, or pay for a subsequent Appraisal unless:

- you document in your Transaction Approval Memo that the initial Appraisal:
 - was not credible; or
 - violated legal and/or professional standards related to
 - USPAP, or
 - nondiscrimination; and
- the subsequent Appraisal:
 - is required per your pre-established written pre- or post-funding Appraisal review policy;
 - adheres to a policy of selecting the most reliable Appraisal rather than



the Appraisal with the highest value; or

- is required by law.

202.01G Appraiser Discontinuance or Misconduct

Requirements

You must promptly notify:

- Fannie Mae if you discontinue using any Appraiser who completed Appraisals within the past 12 months for Mortgage Loans you Delivered; and
- Fannie Mae and the applicable state Appraiser certifying and licensing agency, or other regulatory body, if you believe an Appraiser is:
 - violating USPAP, fair lending, fair housing, or other applicable laws;
 - not complying with Instructions for Appraisers ([Form 4827](#)) in violation of its engagement with you; or
 - engaging in unethical conduct.

202.02 Valuation

202.02A Appraised Value

Requirements

You must ensure:

- the Appraiser's engagement letter requires compliance with Instructions for Appraisers ([Form 4827](#));
- the Appraiser provides an opinion of the market value on an "as is" basis;
- the Appraiser's opinion of the market value covers:
 - each separate Project per [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#); and
 - the aggregate market value of all Projects; and
- regardless of any allocation in the purchase/sales agreement, the Appraiser's opinion of the market value excludes any value from
 - goodwill,
 - business value (permitted for Seniors Housing Properties),



- intangibles,
- furniture,
- fixtures (unless customary in the market), or
- equipment.

You may also request the Appraiser provide an opinion of the Property's market value on an "as completed" basis, but you must only use an "as completed" value if all of the following apply:

- less than 12 months have passed between the
 - Borrower's acquisition of the Property, and
 - Commitment Date;
- for any capital improvements completed after the Mortgage Loan Origination Date to be considered in an "as completed" value, they must be:
 - Immediate Repairs listed in the PCA; or
 - improvements identified by the Borrower, if you agree the improvements will add Property value;
- all capital improvements are included in either the
 - Completion/Repair Schedule, or
 - Rehabilitation Reserve Agreement;
- sufficient funds to complete all capital improvements are deposited into either the Completion/Repair Escrow or the Rehabilitation Reserve Account:
 - for capital improvements identified as Immediate Repairs, the funds must cover any higher funding percentage you require; and
 - for capital improvements identified by the Borrower, the funds must cover the estimated cost (including a cost overrun allowance); and
- all capital improvements must be completed within:
 - 12 months after the Mortgage Loan Origination Date, if identified by the Borrower; or
 - any shorter time period per [Part II, Chapter 4: Inspections and Reserves, Section 404: Completion/Repairs](#), if listed as Immediate Repairs.



202.02B Property's Sale History

Requirements

You must:

- analyze the Property's sale history for the last 3 years, including any transfer of a Controlling Interest in the owner;
- address the following in your Transaction Approval Memo:
 - if a sale occurred within the last 24 months, document the
 - circumstances of the sale, and
 - support for any increased Appraised Value by analyzing any
 - Net Cash Flow increases,
 - capitalization rate compression, and
 - value-add market drivers; and
 - if any stated sales price per the purchase/sales agreement differs from the transfer price per the public records or third-party reports, investigate and document the discrepancy;
- for any acquisition, confirm the seller was the Property owner in the real estate records when the purchase/sales agreement was signed;
- evaluate the purchase/sale contracts to
 - clearly identify the
 - seller, and
 - purchaser, and
 - confirm the sale was an arm's length transaction;
- review the final settlement statement before the Mortgage Loan Origination Date to confirm accuracy of the
 - purchase price,
 - closing costs, and
 - any cash in/out to the seller and purchaser; and
- submit a copy of:
 - the final settlement statement at Delivery; and
 - all purchase/sales contracts and amendments to



- the Appraiser, and
- Fannie Mae.

202.02C Underwriting Value

Requirements

Your Underwriting Value must not exceed the Appraised Value, as reduced by any adjustments you deem necessary, accounting for:

- your analysis of the Property's sales history; and/or
- Property deficiencies that cannot be cured within 6 months after the Appraisal Date.

If less than 12 months have passed between the Borrower's acquisition of the Property and the Commitment Date, your Underwriting Value must not exceed the lower of the

- Appraised Value, or
- sum of the:
 - Property's acquisition price per the title company settlement statement, with no allocations to:
 - goodwill,
 - business value (permitted for Seniors Housing Properties),
 - intangibles,
 - furniture,
 - fixtures (unless customary in the market), or
 - equipment;
 - cost of capital improvements or repairs that increase the Property's value, if
 - completed and fully paid, or
 - sufficient funds for completion are deposited in the Completion/Repair Escrow or reserve account; and
 - actual acquisition costs, not exceeding 3% of the acquisition price, including:
 - Origination Fee;
 - arm's length acquisition fee (generally 1% - 2%) paid to an



unrelated Person if documented in the Settlement Statement;

- third-party report fees;
- Borrower-paid legal fees incurred on your behalf;
- title search and title insurance fees;
- survey fees;
- real estate and stamp taxes;
- deed-recording fees; and
- credit report charges.

Guidance

Actual acquisition costs should exclude any prepaid operating expenses or deposits applied toward future operating expenses or Property improvements, including:

- prepaid or escrowed
 - real estate taxes, or
 - insurance premiums;
- prepaid
 - utilities,
 - Mortgage Loan interest, including any interest rate buydown expense,
 - rents, or
 - security deposits;
- funded
 - Replacement Reserve (including any initial deposit),
 - Interest Rate Cap cost,
 - operating or Restabilization Reserve, or
 - Borrower-controlled Property operating or capital accounts;
- fees included in the Gross Note Rate, including any
 - Origination Fee, or
 - broker fee;
- acquisition fees paid to a Borrower-Affiliate; and



- for an MAH Property, pre-paid Bond-related and compliance monitoring fees.



Glossary

A

Affiliate

When referring to an affiliate of a Lender, any other Person or entity that Controls, is Controlled by, or is under common Control with, the Lender.

When referring to an affiliate of a Borrower or Key Principal:

- any Person that owns any direct ownership interest in Borrower or Key Principal;
- any Person that indirectly owns, with the power to vote, 20% or more of the ownership interests in Borrower or Key Principal;
- any Person Controlled by, under common Control with, or which Controls, Borrower or Key Principal;
- any entity in which Borrower or Key Principal directly or indirectly owns, with the power to vote, 20% or more of the ownership interests in such entity; or
- any other individual that is related (to the third degree of consanguinity) by blood or marriage to Borrower or Key Principal.

Synonyms

- Affiliates
- Affiliate's

Appraisal

Written statement independently and impartially prepared by a qualified Appraiser stating an opinion of the Property's market value

- as of a specific date, and
- supported by the presentation and analysis of relevant market information.

Synonyms

- Appraisals
- Appraisal's

Appraisal Date

Effective date of value in the Appraisal.



Appraised Value

Appraiser's opinion of the Property's market value documented in the Appraisal, on an "as is" basis, unless use of an "as completed" basis is specifically permitted per the Guide.

Synonyms

- Appraised Values

Appraiser

Person engaged to estimate a Property's market value per USPAP.

Synonyms

- Appraiser's
- Appraisers

B

Borrower

Person who is the obligor per the Note.

Synonyms

- Borrowers
- Borrower's

C

Commitment Date

Date a Commitment is confirmed by Fannie Mae per [Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments](#).

Completion/Repair Escrow

Custodial Account funded on the Mortgage Loan Origination Date for Completion/Repairs or capital improvements per the Loan Documents.



Completion/Repair Schedule

The Required Repair Schedule to the Multifamily Loan Agreement ([Form 6001 series](#)) and the applicable parts of the Multifamily Loan Agreement, or other Fannie Mae-approved agreement, evidencing:

- the Borrower's agreement to
 - fund the Completion/Repair Escrow, and
 - perform Completion/Repairs; and
- Completion/Repair Escrow disbursement terms.

Synonyms

- Completion/Repair Schedules

Completion/Repairs

Repairs or capital item replacements and deferred maintenance:

- identified per the Property Condition Assessment; and
- required per the
 - Completion/Repair Schedule, or
 - Completion/Repair Agreement.

Synonyms

- Completion/Repair

Controlling Interest

For any entity, ownership or control of 50% or more of the ownership interests in the entity or the power or right to control or modify, directly or indirectly, the management and operations of the entity.

D

Delivery

Submission of all correct, accurate, and certifiable documents, data, and information with all applicable documents properly completed, executed, and recorded as needed, and any deficiencies resolved to Fannie Mae's satisfaction.

Synonyms

- Deliver
- Delivered
- Deliveries

F



FIRREA

Financial Institutions Reform, Recovery, and Enforcement Act of 1989.

G

Gross Note Rate

Interest rate stated in the Loan Documents.

Guarantor

Key Principal or other Person executing a

- Payment Guaranty,
- Non-Recourse Guaranty, or
- any other Mortgage Loan guaranty.

Synonyms

- Guarantors

Guide

Multifamily Selling and Servicing Guide controlling all Lender and Servicer requirements unless a Lender Contract specifies otherwise.

Synonyms

- DUS Guide

I

Interest Rate Cap

Interest rate agreement between the Borrower and a provider for which the Borrower receives payments at the end of each period when the interest rate exceeds the Cap Strike Rate. The Interest Rate Cap provides a ceiling (or cap) on the Borrower's Mortgage Loan interest payments.

Synonyms

- Interest Rate Caps
- Interest Rate Hedge
- Interest Rate Hedges
- Interest Rate Swap
- Interest Rate Cap's

K



Key Principal

Person who

- controls and/or manages the Borrower or the Property,
- is critical to the successful operation and management of the Borrower and the Property, and/or
- may be required to provide a Guaranty.

Synonyms

- Key Principals
- Key Principal's

M

Moderate Rehabilitation Property

Property that will undergo at least \$8,000 per unit of Rehabilitation Work.

Synonyms

- Moderate Rehabilitation

Mortgage Loan

Mortgage debt obligation evidenced, or when made will be evidenced, by

- the Loan Documents, or
- a mortgage debt obligation with a Fannie Mae credit enhancement.

Synonyms

- Mortgage Loans
- Mortgage Loan's

Mortgage Loan Origination Date

Date you fund a Mortgage Loan to the Borrower.

Synonyms

- Mortgage Loan's Origination Date
- Origination Date

N



Net Cash Flow

On an annual basis or any specified period, the total Net Operating Income, minus the full amount underwritten for Replacement Reserve expense, regardless of whether deposits will be made (per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III).

Synonyms

- NCF

O

Origination Fee

Fee you charge the Borrower for underwriting and originating the Mortgage Loan.

Synonyms

- Origination Fees

P

PCA Report

Property Condition Assessment Report documenting the findings of a PCA.

Person

Legal person, including an

- individual,
- estate,
- trust,
- corporation,
- partnership,
- limited liability company,
- financial institution,
- joint venture,
- association, or
- other organization or entity (whether governmental or private).

Synonyms

- Persons
- Person's



Project

Multifamily buildings

- on multiple Properties,
- owned by the same Borrower, and
- that comply with [Part II, Chapter 1: Attributes and Characteristics, Section 102.01: Single Borrower Ownership](#).

Synonyms

- Projects

Property

Multifamily residential real estate securing the Mortgage Loan, including the

- fee simple or Leasehold interest,
- Improvements, and
- personal property (per the Uniform Commercial Code).

Synonyms

- Properties
- Property's

R

Rehabilitation Reserve Account

Custodial Account established by the Lender and funded by deposits from the Borrower per the Rehabilitation Reserve Agreement to fund the Rehabilitation Work.

Rehabilitation Reserve Agreement

Borrower's agreement to undertake identified Rehabilitation Work, the terms for funding the Rehabilitation Work, and the disbursement of funds from the Rehabilitation Reserve Account (e.g., [Form 6222](#) or [Form 4523](#)).

Replacement Reserve

Custodial Account the Borrower funds during the Mortgage Loan term for Replacements.

Synonyms

- Replacement Reserves

S



Sponsor Principal equity owner and/or primary decision maker of the Borrower (often the Key Principal or the Person Controlling the Key Principal).

Synonyms

- Sponsors
- Sponsor's

U

Underwriting Value Value of the Property determined by the Lender to size the Mortgage Loan per [Part II, Chapter 2: Valuation and Income, Section 202: Appraisal and Valuation](#).

USPAP Uniform Standards of Professional Appraisal Practice