Fannie Mae®

Multifamily Selling and Servicing Guide

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202.02 Appraisals

202.02A Appraiser Selection

☑ Requirements

You must:

- maintain a list of Appraisers generally approved to perform Appraisals;
- document the selection and approval of an Appraiser, per your Lender Appraisal Function processes, 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 Propertys market;
- if an in-house Appraiser is used, ensure your Lender Loan Origination Function is separated from and cannot in any way influence (i.e., an ethical wall) the in-house Appraiser to:
  - prevent conflicts of interest; and
  - maintain Appraisal independence;
- 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 Appraisers 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;
- copies of:
  - any executed commercial leases, including all amendments and attachments;
  - any ground leases;
  - any easements or regulatory agreements; and
  - any PSA 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 Appraisers estimate of the Propertys 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.

202.02B Permissible Appraiser Communications

Requirements

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

Appraiser Communications	
You may...	You must not...
• obtain supporting information for a specific market, including: - 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 Appraisers conclusions.	provide any Mortgage Loan data, such as • LTV, • DSCR, • amount, or • Underwritten NCF.

202.02C Appraiser Independence

Requirements



You must ensure no Person influences, or attempts to influence, the development, reporting, result, or review of an Appraisal through coercion, extortion, collusion, compensation, inducement, intimidation, bribery, or any other manner including:

- withholding, or threatening to withhold:
  - timely payment; or
  - future business;
- demoting or terminating, or threatening to demote or terminate, the Appraiser or any Appraiser employee;
- promising, either expressly or implicitly, the Appraiser or any Person related to the Appraiser:
  - future business;
  - promotions; or
  - increased compensation, including
    - financial benefits, or
    - non-financial benefits;
- conditioning the Appraisal order, or any bonus payment on
  - the Appraisals opinion of the Property's value, or
  - a requested preliminary value estimate;
- any Appraiser communications (other than providing a copy of the PSA for an Acquisition) regarding the Propertys anticipated, estimated, encouraged, or desired:
  - comparable properties;
  - capitalization rates; or
  - value or value range;
- providing the Appraiser a proposed or targeted loan amount;
- impairing, or attempting to impair, through any other act or practice, the Appraisers
  - independence,
  - objectivity, or
  - impartiality; or
- violating compliance with any law or regulation, including the USPAP.

To ensure the Appraisers independence, you must:

- implement written policies and procedures;
- ensure any Outside Parties involved in your Lender Appraisal Functions maintain Appraiser independence by confirming they do not also participate in your Lender Loan Origination Functions; and
- if requested, provide evidence confirming your Lender Loan Origination Functions are separate from your Lender Appraisal Functions.

Guidance

Appraisal Independence	
To ensure compliance, your written policies should include...	That describe...
Procedures	how you maintain independence between the Lender Appraisal Function and Lender Loan Origination Functions through • organizational measures (e.g., an ethical wall), • staffing, and • written documentation.
Disciplinary Rules	the consequences for not complying with the requirements, including • promotion delays, • compensation reductions, or • termination, in very severe cases.
Training Programs	in-person or online training: • designed to aid compliance with the requirements; and • detailing policies outlining mandatory training - types, - content, - audiences, and - frequency.

202.02D Valuation Date

Requirements

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

202.02E 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.

202.02F Lender Appraisal Review

Requirements

Your Lender Appraisal Functions 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 Propertys complete legal description;
- any information you provided the Appraiser;
- color photographs of the Propertys
  - exterior,
  - interior common areas,
  - typical unit interiors,
  - surrounding area,
  - rental comparables,
  - sales comparables, and
  - commercial rental comparables;
- maps showing the Propertys location relative to the location of the
  - land comparables,
  - current 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 202.03A: Appraised Value, and supported by
  - market data,
  - logical analysis, and
  - sound professional judgment;
- an opinion of the Propertys insurable value; and
- an industry standard form of Appraisal appropriate for the Mortgage Loans
  - size, and

- structure.

Your Lender Appraisal Functions 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;
  - includes a statement describing how the PCA conclusions impacted your determination of the Underwriting Value; and
  - uses supporting data from
    - your multifamily mortgage loan portfolio,
    - verified third-party valuations,
    - DUS Insights, or
    - other industry standard sources; 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 • supply and demand dynamics, • interest rates, and • economic factors.
Data Accuracy	Verify the Appraisals data accuracy, including • Property details, • recent sales prices, and • relevant market data.

Appraisal Analysis	
For...	You must...
Property Inspections	Determine if the Appraiser conducted a thorough inspection of the Property per Instructions for Appraisers (Form 4827).
Comparable Analysis	• Determine if the Appraiser used comparable properties per Instructions for Appraisers (Form 4827) based on the similarity in: - 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; and - location, including ▪ market, ▪ submarket, and ▪ distance to subject. • If appropriate comparable properties were not used, either: - coordinate with the Appraiser to obtain additional comparable properties; or - provide the Appraiser additional comparable properties from Appraisals ▪ for any prior transactions you originated within the last 12 months before the Appraisal Date, or ▪ from any industry standardsources verifiable by the Appraiser.
Market Rents and Expense Analysis	If the Appraisers 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.

Appraisal Analysis	
For...	You must...
Capitalization Rate Analysis	Provide your assessment that the capitalization rate: • supports your final Underwriting Value; and • is within comparable capitalization rates compared to - your portfolio data, or - any other industry standardsources you use to review appraisals.
Value Reconciliation	• Review how the Appraiser reconciled the values obtained from different approaches to determine the final opinion of value. • Document your assessment.

For each Appraisal, your Lender Appraisal Functions 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 310: Compliance.

202.02G 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.

202.02H 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.

Glossary

A

Acquisition	Any Purchase of either the: • Propertys fee simple or leasehold interest via a deed transfer; or • Controlling Interest in the Borrower. **Synonyms** • Acquisitions
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	Appraisers 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 Propertys market value per USPAP. **Synonyms** • Appraiser's • Appraisers

B

Borrower	Person who is the obligor per the Note. **Synonyms** • Borrowers • Borrower's

C

Commitment	Contractual agreement between you and Fannie Mae where Fannie Mae agrees to buy a Mortgage Loan at a future date in exchange for an MBS, or at a specific price for a Cash Mortgage Loan, and you agree to Deliver that Mortgage Loan. **Synonyms** • Committed • Commitments
Commitment Date	Date a Commitment is confirmed by Fannie Mae per Part IV, Chapter 2: Rate Lock and Committing, Section 204: Commitments.

D

Debt Service Coverage Ratio	On an annual basis or any specified period, the ratio of Net Cash Flow to the total of: principal, interest, and required Mezzanine Financing or Hard Pay Preferred Equity payments. **Synonyms** • DSCR

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 Maes satisfaction. **Synonyms** • Deliver • Delivered • Deliveries
DUS	Delegated Underwriting and Servicing

E

Environmental Site Assessment	Investigation and resulting report (Phase I ESA or Phase II ESA) conducted per Environmental Due Diligence Requirements (Form 4251), identifying if a Property has Recognized Environmental Conditions or Business Environmental Risks. **Synonyms** • ESA • Environmental Site Assessments

F

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

G

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

Insurable Value	For any Property, the estimate of the maximum dollar amount needed to replace, repair, or reproduce the Property, but excluding any land value. **Synonyms** • Insurable Values

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

L

Lease	Written agreement between an owner and the tenant of a Property stipulating the conditions for possession and use of real estate for a specified period of time and rent. **Synonyms** • Leases

Lender	Person Fannie Mae approved to sell or service Mortgage Loans. **Synonyms** • Lenders • Lender's
Lender Appraisal Function	The Lender: • internal roles or job functions, including any employees that report up to the Chief Underwriter (but excluding any Lender Loan Origination Functions), involved with the following Appraisal-related responsibilities: - engaging the Appraiser; - defining the Appraisals scope of work; - managing the Appraiser; or - reviewing the Appraisal; and • employees or Outside Parties who perform or manage those job functions. **Synonyms** • Lender Appraisal Functions
Lender Loan Origination Function	Any: • Lender internal roles or job functions reporting up to the Chief Production Officer; • Lender employees who receive a commission or bonus if the Mortgage Loan closes, including any employees or functions that report up to these roles and/or their immediate supervisor; • Mortgage Loan Brokers; or • Correspondents. **Synonyms** • Lender Loan Origination Functions

Loan-to-Value Ratio	Ratio of the actual aggregate UPB of the Mortgage Loan, plus any Pre-Existing Mortgage Loans, plus any Hard Pay Preferred Equity, plus any Mezzanine Financing, to the value of the Property, expressed as a percentage. **Synonyms** • LTV • LTV Ratio

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 Broker	Third-party Person who arranges • Mortgage Loan financing on the Borrowers behalf, or • Transfers/Assumptions on behalf of the - new Borrower for an assumption, or - transferee for a transfer. **Synonyms** • Broker • Brokers • Mortgage Loan Brokers

N

Net Cash Flow	At underwriting or for any specified period, the amount calculated per Part II, Chapter 2: Valuation and Income, Section 203: Income Analysis and the applicable products and features in Part III. **Synonyms** • NCF

O

Outside Party	Person you retain to perform services for multifamily Mortgage Loans (e.g., Appraisers, inspectors, Correspondents, law firms, engineers, environmental consultants, and Brokers, title companies, or title agents). **Synonyms** • Outside Parties

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

Principal	Person who owns or controls, in the aggregate, directly or indirectly (together with that Person's Immediate Family Members, if an individual), specified interests in the Borrower per Part I, Chapter 3: Borrower, Guarantor, Key Principals, and Principals, Section 303: Key Principals, Principals, and Guarantors. **Synonyms** • Principals
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
Property Condition Assessment	Assessment of the Property's physical condition and historical operation. **Synonyms** • PCA • PNA • Physical Needs Assessment • PCAs
Purchase/Sales Agreement	Final fully executed purchase or sales contract or agreement (including all amendments, assignments, extensions, joinders/acknowledgements, and related documents) for an Acquisition. **Synonyms** • PSA

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