

# Market Conditions Addendum to the Appraisal Report

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**Supplement**



## **Fannie Mae Releases Market Conditions Addendum**

On November 14, 2008, Fannie Mae released a “Market Conditions Addendum to the Appraisal Report” ([Form 1004MC](#)). This form is required with all one-to-four unit property appraisals and for all appraisals of properties that are to be security for FHA-insured mortgages performed on or after April 1, 2009.

This requirement applies to loans delivered to Fannie Mae, whether the loans are underwritten manually or through Desktop Underwriter®. This form is intended to provide lenders with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to identify more easily current market trends and conditions. The appraiser’s conclusions must be reported in the “Neighborhood” section of the appraisal report.

The following items have been compiled to assist you in understanding the new Market Conditions Addendum to the Appraisal Report:

- **Announcement 08-30–Amends these Guides: Selling, Appraisal-Related Policy Changes and Clarifications.** Addresses new or updated policies, clarification of existing policies, and the implementation of Form 1004MC.
- **Fannie Mae Form 1004MC: Market Conditions Addendum to the Appraisal Report.\*** Provides a structured format to report data and more easily identifies current market trends and conditions.
- **FAQs: Appraisal and Property Report Policies and Forms.\*** Provides guidelines for using the newly introduced addendum, new policies and clarifications of existing policies, and other general appraisal topics.
- **HUD Mortgagee Letter 2009-09 (U.S. Department of Housing and Urban Development).** Addresses the adoption of the Market Conditions Addendum and appraisal reporting requirements for properties located in declining markets.

\* On March 12, 2009, a revised 1004MC form was released by Fannie Mae. Minor changes were made. Several boxes on the form were shaded to show they did not have to be completed if the data is not available.





U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

March 23, 2009

MORTGAGEE LETTER 2009-09

**TO: ALL APPROVED MORTGAGEES  
ALL FHA ROSTER APPRAISERS**

**SUBJECT: Adoption of Market Conditions Addendum (Fannie Mae Form 1004MC/Freddie Mac Form 71) and Appraisal Reporting Requirements for Properties located in Declining Markets**

Currently, all Federal Housing Administration (FHA) Roster Appraisers are required to report on housing trends in the Neighborhood section of the applicable property specific appraisal reporting form. The Uniform Standards of Professional Appraisal Practice (USPAP) mandate that an appraiser maintain documentation necessary to support all analyses, opinions and conclusions for each appraisal assignment in a work file. In order to ensure greater transparency and accuracy of appraisals performed for FHA-insured financing, FHA will adopt the Market Conditions Addendum (Fannie Mae Form 1004MC/ Freddie Mac Form 71, released November 2008). For all appraisals of properties that are to be security for FHA-insured mortgages and that are performed on or after April 1, 2009, the appraisal must include the Market Conditions Addendum. Fannie Mae Announcement 08-30 contains further information and instructions on completing the Addendum and is *available online at*:

<https://www.efanniemae.com/sf/guides/ssg/annltrs/pdf/2008/0830.pdf>

The announcement provides guidelines for using Fannie Mae Form 1004MC which should be utilized by FHA Roster Appraisers to complete the form. Additional guidelines and instructions provided in the announcement that are unrelated to completing Fannie Mae Form 1004MC are not applicable to FHA appraisal reporting requirements and procedures.

FHA Roster Appraisers and FHA Mortgagees are reminded that seller concession guidance is provided in Mortgagee Letter 2005-02.

## **Use of Closed Comparable Sales and Active Listings/Pending Sales for Appraisals in Declining Markets**

Mortgagee Letter 2007-11 provides guidance on appraisal practices in declining markets and Mortgagee Letter 2008-09 provides guidance for when there is need for a second appraisal for properties located in declining markets and limitations on cash-out refinances. As economic instability continues to impact many segments of the economy and as home prices continue to decline in many housing markets throughout the country due to job losses and increased foreclosures, FHA finds it necessary and prudent to set forth additional guidance for collateral assessment practices for properties located in a declining market. This guidance is also effective April 1, 2009.

### **Declining Markets**

Although there is no standard industry definition, for purposes of performing appraisals of properties that are to be collateral for FHA insured mortgages, a declining market is considered to be any neighborhood, market area, or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory or extended marketing times. A declining trend in the market will be identified by the conclusions of the 1004MC form. The appraiser must provide a summary comment and provide support for all conclusions relating to the trend of the current market.

### **Appraisal Reporting Requirements in Declining Markets**

Appraisals of properties located in declining markets must include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal.

In some markets compliance with this requirement may be difficult or not possible due to the lack of market data and, in these cases, a detailed explanation is required. The appraiser is expected to include at least two sales that are as similar as possible to the subject and which settled within 90 days of the effective date of the appraisal in order to show recent market activity.

In order to ensure that FHA receives an accurate and thorough appraisal analysis, the inclusion of comparable listings and/or pending sales is required in appraisals of properties that are located in declining markets. Specifically, the appraiser must:

- Include a minimum of two active listings or pending sales on the appraisal grid of the applicable appraisal reporting form in comparable 4-6 position or higher (in addition to the three settled sales).

- Insure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of overpriced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood. The comparable listings should be truly comparable and the appraiser should bracket the listings using both dwelling size and sales price whenever possible.
- Adjust active listings to reflect list to sale price ratios for the market.
- Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios.
- Include the original list price, any revised list prices, and total days on the market (DOM). Provide an explanation for DOM that do not approximate time frames reported in the Neighborhood section of the appraisal reporting form or that do not coincide with the DOM noted in the Market Conditions Addendum.
- Reconcile the adjusted values of active listings or pending sales with the adjusted values of the settled sales provided. If the adjusted values of the settled comparables are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate. The final value conclusion should not be based solely on the comparable listing or pending sales data.
- Include an absorption rate analysis, which is critical to developing and supporting market trend conclusions, as mandated by the Market Conditions Addendum. For example, assuming 36 sales during a six month period, the absorption rate is 6 sales per month (36/6).

### **Data Requirements**

Data regarding market trends is available from a number of local and nationwide sources. Appraisers must be diligent in using only impartial sources of data.

- The appraiser must verify data via local parties to the transaction: agents, buyers, sellers, lenders, etc. (if the sale cannot be verified by a party then public records or other impartial data source that can be replicated may be used). A Multiple Listing Service (MLS) by itself is not considered a verification source.
- Unacceptable data sources include local and national media and other sources considered not readily verifiable. Appraisal results should be able to be replicated.
- Known or reported incentives or sales concessions must be noted in the financing section of the grid for any active or pending comparable used.

## **Lender Responsibilities**

Lenders are responsible for properly reviewing the appraisal and determining if the appraised value used to determine the mortgage amount is accurate and adequately supports the value conclusion.

Direct Endorsement lenders are reminded that if the appraiser they selected provides a poor or fraudulent appraisal that leads FHA to insure a mortgage at an inflated amount, the lender is held responsible, equally with the appraiser, for the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

## **Information Collection Requirements**

Paperwork reduction information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

If you should have any questions concerning this Mortgagee Letter, call 1-800-CALLFHA. Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483)

Sincerely,

Brian D. Montgomery  
Assistant Secretary for Housing-  
Federal Housing Commissioner





*Announcement 08-30*

*November 14, 2008*

*Amends these Guides: Selling*

*Appraisal-Related Policy Changes and Clarifications*

## **Introduction**

Due to current conditions in the real estate market, it is paramount that appraisers are provided with sufficient guidance to properly appraise and document the appraisal report. Fannie Mae recognizes the Uniform Standards of Professional Appraisal Practice as the minimum appraisal standards for the appraisal profession. In addition, Fannie Mae has established its own separate appraisal requirements to supplement the Uniform Standards. This Announcement addresses several new or updated appraisal-related requirements and clarifies several other existing policies to help underwriters make sound underwriting decisions when reviewing the appraisal report. The following topics are discussed:

### **New or Updated Policies**

- Implementation of the Market Conditions Addendum to the Appraisal Report (Form 1004MC)
- Use of supervisory appraisers
- Requirement to provide the sales contract to the appraiser
- Requirement regarding the appraiser's selection of comparable sales

### **Clarification of Existing Policies**

- Repair escrows for existing construction
- Research and reporting of the current and prior listings of the subject property
- Appraising the entire site of a property
- Time adjustments on the appraisal report
- Verification of a sales transaction
- Neighborhood boundaries and the selection of comparable sales
- Effective age of the subject property
- Utilizing the cost approach to value for insurance purposes

## **Implementation of the Market Conditions Addendum to the Appraisal Report (Form 1004MC)**

***Selling Guide*, Part XI, Section 403.03: Trend of Property Values, Demand/Supply, and Marketing Time; and Section 203: Appraisal and Property Inspection Report Forms**

Fannie Mae purchases or securitizes mortgages in all markets and under all market conditions. The current appraisal report forms require the appraiser to report on the primary indicators of market condition for properties in the subject neighborhood by noting the trend of property values (increasing, stable, or declining), the supply of properties in the subject neighborhood (shortage, in-balance, or over-supply), and the marketing time for properties (under three months, three to six months, or over six months) as of the effective date of the appraisal. Fannie Mae also expects the appraiser to provide their conclusions for the reasons a market is experiencing declining market values, an over-supply of properties, or marketing times over six months.

To further enhance the transparency of the conclusions made by the appraiser related to market trends and conditions, the Form 1004MC will be required for all mortgage loans delivered to Fannie Mae with appraisals of one- to four-unit properties with an effective date on or after April 1, 2009. A sample of the form is attached to this Announcement. In addition, the form is posted on [eFannieMae.com](http://eFannieMae.com).

### **Guidelines for Using Form 1004MC**

The Form 1004MC is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. The appraiser's conclusions are to be reported in the "Neighborhood" section of the appraisal report.

Fannie Mae recognizes that all of the requested data elements for analysis are not equally available in all markets. In some markets it may not be possible to retrieve the total number of comparable active listings from earlier periods. If this is the case, the appraiser must explain the attempt to obtain such information. Also, there may be markets in which the data is available in terms of an "average" as opposed to a "median." In this case, the appraiser needs to note that his or her analysis has been based on an "average" representation of the data. Regardless of whether all requested information is available, the appraiser must provide support for his or her conclusions regarding market trends and conditions.

### **Inventory Analysis Section**

The "Inventory Analysis" section assists the appraiser in analyzing important supply and demand factors in order to reach a conclusion regarding housing trends and market conditions. When completing this section, the appraiser must include the comparable data

that reflects the total pool of comparable properties from which a buyer may select a property in order to analyze the sales activity and the local housing supply. One of the tools used to monitor these trends is the absorption rate. The absorption rate is the rate at which properties for sale have been or can be sold (marketed) within a given area. To determine the absorption rate, the appraiser divides the total number of settled sales by the time frame being analyzed. The months of housing supply is based on the total listings for the applicable period divided by the absorption rate.

#### **Example**

**Step 1:** Calculate the absorption rate. If there were 60 sales during a 6 month period (e.g., “Prior 7 – 12 Months” column), the absorption rate is 10 sales per month (60/6).

**Step 2:** Calculate the months of housing supply. If there are 240 active listings, there is a 24-month supply of homes on the market (240 active sales/10 sales per month). This may support the appraiser’s conclusion that there is an over-supply of homes on the market. Anomalies in the data such as seasonal markets, new construction, or other factors must be addressed in the form.

#### **Median Sale & List Price, DOM, List/Sale Ratio Section**

The appraiser must analyze additional trends, including the changes in median prices and days on the market (DOM) for both sales and listings as well as a change in list-to-sales price ratios.

#### **Example**

If the median comparable sale prices are \$300,000, \$295,000, and \$305,000 for their respective time periods, the overall trend for the prior 12 months is relatively “stable.”

#### **Overall Trend Section**

The “Overall Trend” section is designed to reflect potential positive trends, neutral trends, or negative trends in inventory, median sale and list price, days on market, list-to-sale price ratio, and seller concessions.

#### **Example**

An increase in the absorption rate is generally viewed as a positive trend, whereas a decrease in the absorption rate may be viewed as a negative trend. Furthermore, a decrease in the number of days on the market, either sales or listings, more than likely represents an overall positive trend.

#### **Seller Concessions**

Form 1004MC also provides a section for comments on the prevalence of seller concessions and the trend in seller concessions for the past 12 months. The change in seller concessions within the market provides the lender with additional insight into current market conditions. The appraiser should consider and report on seller-paid (or third-party) costs. Examples of these items include, but are not limited to mortgage

payments, points and fees, and in condominium or cooperative projects, items such as homeowners' association fees and guaranteed rental programs. Seller concessions must be carefully analyzed by the appraiser since excessive concessions often lead to inflated property values.

There are a number of markets across the country where, due to current conditions, there has been an increase in the prevalence of seller concessions. The following excerpt from the *Selling Guide*, Part XI, Section 406.5 (C) provides guidance for these circumstances:

“The need to make negative dollar adjustments for sales and financing concessions and the amount of the adjustments to the comparable sales are not based on how typical the concessions might be for a segment of the market area—large sales concessions can be relatively typical in a particular segment of the market and still result in sale prices that reflect more than the value of the real estate. Adjustments based on dollar-for-dollar deductions that are equal to the cost of the concessions to the seller (as a strict cash equivalency approach would dictate) are not appropriate. We recognize that the effect of the sales concessions on sales prices can vary with the amount of the concessions and differences in various markets. The adjustments must reflect the difference between what the comparables actually sold for with the sales concessions and what they would have sold for without the concessions so that the dollar amount of the adjustments will approximate the reaction of the market to the concessions.”

For further information regarding seller concessions in the appraisal, refer to the *Selling Guide*, Part XI, Section 205 and Section 406.05(C) (for additional guidance not referenced above).

### **Foreclosure Sales and Summary/Analysis of Data**

The presence and extent of foreclosure/REO sales is worthy of comment when analyzing market data and must be reported on the form. The form also allows for the appraiser to summarize the data and provide other data analysis or additional information, such as analysis of pending sales, which over time can show a market trend.

### **Use of Supervisory Appraisers**

#### ***Selling Guide*, Part XI, Section 101.03: Use of Supervisory or Review Appraisers**

Fannie Mae defines the appraiser as the individual who personally inspected the property being appraised, inspected the exterior of the comparables, performed the analysis, and prepared and signed the appraisal report as the appraiser. Fannie Mae allows an unlicensed or uncertified appraiser who works as an employee or subcontractor of a licensed or certified appraiser to perform a significant amount of the appraisal (or the entire appraisal if he or she is qualified to do so)—as long as the appraisal report is signed by a licensed or certified supervisory or review appraiser and is acceptable under state law. This policy is updated to now require that if a supervisory appraiser signs the

appraisal report as the appraiser, the supervisory appraiser must have performed the inspection of the subject property.

### **Requirement to Provide the Sales Contract to the Appraiser**

#### ***Selling Guide*, Part XI, Chapter 2: Appraisal (or Property Inspection) Documentation**

Fannie Mae requires the lender to ensure that it provides the appraiser with all appropriate financing data and sales concessions for the subject property that will be, or have been, granted by anyone associated with the transaction. Typically this information is contained in the sales contract; however, Fannie Mae currently does not require that the lender provide the appraiser with the sales contract. Fannie Mae is adding the requirement that lenders must provide the appraiser with the sales contract and all addenda, therefore ensuring that the appraiser has been given the opportunity to consider the financing and sales concessions in the transaction and their effect on value. If the sales contract is amended during the process, the lender must provide the updated contract to the appraiser.

### **Requirement Regarding the Appraiser's Selection of Comparable Sales**

#### ***Selling Guide*, Part XI, Section 406.02: Selection of Comparable Sales**

The *Selling Guide* states that when a property is located in an area in which there is a shortage of truly comparable sales—either because of the nature of the property improvements or the relatively low number of sales transactions in the neighborhood—the appraiser may need to use as comparable sales properties that are not truly comparable to the subject property or properties that are located in competing neighborhoods.

If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, Fannie Mae is adding a requirement that the appraiser provide an explanation as to why he or she used the specific comparable sales in the appraisal report. This will add transparency to the appraiser's selection of comparable sales and may assist the lender in underwriting the appraisal.

Refer to the "Neighborhood Boundaries and the Selection of Comparable Sales" section of this Announcement for an additional clarification of this section of the *Selling Guide*.

### **Repair Escrows for Existing Construction**

#### ***Selling Guide*, Part XI, Section 202: Status of Construction; and Section 405.08: Property Condition**

The following clarifications apply to both of the above referenced sections of the *Selling Guide* as they pertain to postponed improvements. Furthermore, Fannie Mae is explicitly

stating that completion or repair escrows are permitted under certain circumstances for existing properties.

If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, soundness, or structural integrity of the property, the appraiser may complete the appraisal “as is” and these items must be reflected in the appraiser’s opinion of value. The lender is not required to ensure that the borrower has had this work completed prior to delivery of the loan to Fannie Mae.

If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at their own discretion and still deliver the loan to Fannie Mae prior to the release of the escrow as long as the lender can ensure that these items do not affect the livability, soundness, or structural integrity of the property. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass. Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property.

When there are incomplete items or conditions that do affect the livability, soundness, or structural integrity, the property must be appraised subject to completion of the specific alterations or repairs. These items include, a partially completed addition or renovation, or physical deficiencies that could affect the soundness or structural integrity of the improvements including but not limited to cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures. In such cases, the lender must obtain a certificate of completion from the appraiser before it delivers the mortgage to Fannie Mae.

### **Research and Reporting of the Current and Prior Listings of the Subject Property**

#### ***Selling Guide*, Part XI, Section 401: The Subject Property**

Fannie Mae’s appraisal report forms require the appraiser to research and comment on whether the subject property is currently for sale or if it has been listed for sale within 12 months prior to the effective date of the appraisal. To clarify, the appraiser must report on *each* occurrence or listing and provide the data source(s), offering prices, and date(s). For example, if the subject property is currently listed for sale and was previously listed eight months ago, the appraiser must report on both offerings.

### **Appraising the Entire Site of a Property**

#### ***Selling Guide*, Part XI, Section 404: Site Analysis**

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It also must have comparable utilities, street improvements, adequate vehicular access, and other amenities. Fannie Mae is clarifying

that the appraisal must include the actual size of the site and not a hypothetical portion of the site. For example, the appraiser may not appraise only 5 acres of an unsubdivided 40-acre parcel. The appraised value must reflect the entire 40-acre parcel.

### **Effective Age of the Subject Property**

#### ***Selling Guide*, Part XI, Section 405.02: Actual and Effective Ages**

The effective age can be a good indication of the condition of the subject property. Fannie Mae is clarifying that when adjustments are made to the appraisal for the effective age, the appraiser must provide an explanation for the adjustments and the condition of the property.

### **Verification of a Sales Transaction**

#### ***Selling Guide*, Part XI, Section 406.01: Sources of Comparable Market Data**

It is important for the appraiser to ensure that the data he or she is providing in the appraisal report is accurate. When the appraiser is provided with comparable sales data by a party that has a financial interest in either the sale or financing of the subject property, the above section of the *Selling Guide* requires the appraiser to verify the data with a party that does not have a financial interest in the subject transaction. However, when appraising new construction, the appraiser may need to rely solely on the builder of the property they are appraising to provide comparable sales data, as this data may not yet be available through typical data sources such as public records or multiple listing services. In this scenario, it is acceptable for the appraiser to verify the transaction of the comparable sale by viewing a copy of the HUD-1 Settlement Statement from the builder's file.

### **Neighborhood Boundaries and the Selection of Comparable Sales**

#### ***Selling Guide*, Part XI, Section 406.02: Selection of Comparable Sales**

The appraiser must perform a neighborhood analysis in order to identify the area that is subject to the same influences as the property being appraised (based on the actions of typical buyers in the market area). The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the market area, but also to define the area from which to select the market data needed to perform a sales comparison analysis. As a reminder, although it is preferable for the appraiser to provide comparables from the subject's neighborhood, Fannie Mae does allow for the use of comparable sales that are located in competing neighborhoods, as these may simply be the best comparables available and the most appropriate for the appraiser's analysis. If this situation arises, the appraiser must not expand the neighborhood boundaries just to encompass the comparables selected. The appraiser must indicate the comparables are from a competing neighborhood and address any differences that exist.

## **Time Adjustments on the Appraisal Report**

***Selling Guide*, Part XI, Section 406.05D: Date of sale/time adjustment**

The following is being added to Section 406.05D of the *Selling Guide*:

If in the analysis and completion of the sales comparison approach the appraiser determines that time adjustments are required, the adjustments may be either positive or negative. The adjustments, however, must reflect the difference in market conditions between the date of sale of the comparable and the effective date of appraisal for the subject property.

## **Utilizing the Cost Approach to Value for Insurance Purposes**

***Selling Guide*, Part V, Section 302: Coverage for Home Mortgages; and Part XI, Section 407, Cost Approach to Value**

If a lender requires the cost approach to be completed in order to obtain a replacement cost estimate for the purpose of determining the level of hazard insurance coverage required for a one-unit property, the lender may rely on the appraiser's estimate of the replacement cost of the improvements. This is reported as the "Total Estimate of Cost New" on the appraisal forms. This estimate does not include any form of depreciation or obsolescence for the property. It is not appropriate for the lender simply to subtract the reported site or land value from the appraised value of the property to make the determination because the result is an estimate of the depreciated value of the improvements, not an estimate of their replacement cost.

## **Effective Date**

The new Form 1004MC is required on all appraisals with an effective date on and after April 1, 2009. All other new and updated policies are effective for all appraisals on or after January 1, 2009.

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Lenders who have questions about Announcement 08-30 should contact their Customer Account Team for additional information.

Michael A. Quinn  
Senior Vice President  
Single-Family Risk Officer



# Market Conditions Addendum to the Appraisal Report

File No. \_\_\_\_\_

<p>The purpose of this addendum is to provide the lender/client with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. This is a required addendum for all appraisal reports with an effective date on or after April 1, 2009.</p>						
Property Address		City		State		ZIP Code
Borrower						
<p><b>Instructions:</b> The appraiser must use the information required on this form as the basis for his/her conclusions, and must provide support for those conclusions, regarding housing trends and overall market conditions as reported in the Neighborhood section of the appraisal report form. The appraiser must fill in all the information to the extent it is available and reliable and must provide analysis as indicated below. If any required data is unavailable or is considered unreliable, the appraiser must provide an explanation. It is recognized that not all data sources will be able to provide data for the shaded areas below; if it is available, however, the appraiser must include the data in the analysis. If data sources provide the required information as an average instead of the median, the appraiser should report the available figure and identify it as an average. Sales and listings must be properties that compete with the subject property, determined by applying the criteria that would be used by a prospective buyer of the subject property. The appraiser must explain any anomalies in the data, such as seasonal markets, new construction, foreclosures, etc.</p>						
<b>Inventory Analysis</b>						
	Prior 7-12 Months	Prior 4-6 Months	Current - 3 Months	Overall Trend		
Total # of Comparable Sales (Settled)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Absorption Rate (Total Sales/Months)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Total # of Comparable Active Listings				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Months of Housing Supply (Total Listings/Ab. Rate)				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
<b>MARKET RESEARCH &amp; ANALYSIS</b>						
Median Sale & List Price, DOM, Sale/List %	Prior 7-12 Months	Prior 4-6 Months	Current - 3 Months	Overall Trend		
Median Comparable Sale Price				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Median Comparable Sales Days on Market				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Median Comparable List Price				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Median Comparable Listings Days on Market				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Median Sale Price as % of List Price				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Seller-(developer, builder, etc.) paid financial assistance prevalent? <input type="checkbox"/> Yes <input type="checkbox"/> No				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
<p>Explain in detail the seller concessions trends for the past 12 months (e.g., seller contributions increased from 3% to 5%, increasing use of buydowns, closing costs, condo fees, options, etc.).</p>						
<p>Are foreclosure sales (REO sales) a factor in the market? <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, explain (including the trends in listings and sales of foreclosed properties).</p>						
<p>Cite data sources for above information.</p>						
<p>Summarize the above information as support for your conclusions in the Neighborhood section of the appraisal report form. If you used any additional information, such as an analysis of pending sales and/or expired and withdrawn listings, to formulate your conclusions, provide both an explanation and support for your conclusions.</p>						
<b>CONDOMICHOPT PROJECTS</b>						
If the subject is a unit in a condominium or cooperative project, complete the following:			Project Name: _____			
	Prior 7-12 Months	Prior 4-6 Months	Current - 3 Months	Overall Trend		
Total # of Comparable Sales (Settled)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Absorption Rate (Total Sales/Months)				<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining
Total # of Active Comparable Listings				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
Months of Unit Supply (Total Listings/Ab. Rate)				<input type="checkbox"/> Declining	<input type="checkbox"/> Stable	<input type="checkbox"/> Increasing
<p>Are foreclosure sales (REO sales) a factor in the project? <input type="checkbox"/> Yes <input type="checkbox"/> No If yes, indicate the number of REO listings and explain the trends in listings and sales of foreclosed properties.</p>						
<p>Summarize the above trends and address the impact on the subject unit and project.</p>						
<b>APPRAISER</b>			<b>SUPERVISORY APPRAISER</b>			
Signature			Signature			
Appraiser Name			Supervisory Appraiser Name			
Company Name			Company Name			
Company Address			Company Address			
State License/Certification #			State		State License/Certification #	
State			State			
Email Address			Email Address			



## Appraisal and Property Report Policies and Forms Frequently Asked Questions (FAQs)

Updated March 2009

Fannie Mae recognizes the Uniform Standards of Professional Appraisal Practice as the minimum appraisal standards for the appraisal industry, and also establishes separate appraisal requirements to supplement the Uniform Standards. This document provides guidelines for using the newly introduced Market Conditions Addendum to the Appraisal Report, as well as FAQs about the Addendum, new policies and clarifications of existing policies, and other general appraisal topics.

### Market Conditions Addendum to the Appraisal Report

The Market Conditions Addendum to the Appraisal Report ([Form 1004MC](#)) will be required with all appraisals of one-to-four unit properties effective April 1, 2009 (see [Announcement 08-30, Appraisal-Related Policy Changes and Clarifications](#).) See Attachment for Guidelines for Using Form 1004MC. You can also view a [recorded training](#) on how to complete is the Market Conditions Addendum.

### FAQs

#### *Market Conditions Addendum (Form 1004MC)*

**1. Will the Market Conditions Addendum be required for both manually underwritten mortgage loans and those underwritten with Desktop Underwriter® (DU®)?**

Yes, the Market Conditions Addendum must be included with the appraisal report for all appraisals on one- to four-unit properties with an effective date on or after April 1, 2009. The addendum must be provided with Fannie Mae Forms 1004, 1004C, 2055, 1073, 1075, 2090, 2095, and 1025.

**2. What is the purpose of the Market Conditions Addendum?**

Due to the complexity of the current real estate market, Fannie Mae created the Market Conditions Addendum to capture additional information to enhance the transparency of the market trends and conditions conclusions made by the appraiser.

**3. What if requested data is not available to the appraiser? For example, what if comparable active listings from a previous time period are not available?**

If the appraiser is unable to complete a portion of the addendum because data, such as historical listing data, is unavailable or unreliable, the appraiser must provide an explanation of his or her efforts to obtain such data and why it is not available. Simply stating “not applicable” or “N/A” without an explanation is not an acceptable response.

Some local MLSs may be a source of appropriate data, which appraisers may be able to obtain by downloading it into a spreadsheet or using a software program designed for that purpose.

Appraisers should be aware that software programs currently being marketed may pull data from the MLS but still require additional technical steps to make the data usable for purposes of the market analysis required by the addendum. While these types of programs may be helpful in gathering the data, they are not a substitute for the appraiser's analysis.

The requirements of the addendum are not intended to be so onerous that they hinder the appraiser in completing the appraisal. Fannie Mae does *not* expect appraisers to have advanced technical skills to obtain data in support of these requirements; we *do* expect appraisers to make a reasonable and conscientious effort to obtain reasonably available data to support an accurate and complete analysis.

**4. What should the appraiser do if there is not enough data to present a meaningful analysis?**

In those situations, the appraiser must complete the form with the information he or she has for the defined neighborhood/area—the lack of data may speak to what is occurring in that area. Additional analysis can be addressed in the summary/conclusion section of the form on data in nearby areas for competitive properties. In any event, the appraiser must provide support for his or her conclusions regarding housing trends as noted in the Neighborhood section of the appraisal report.

**5. What if information requested is only available as an “average” instead of the median?**

In that situation, the appraiser must indicate in his/her findings that the data is available on an average basis and not as a median.

**6. What is the absorption rate and how is it helpful in identifying market trends?**

The absorption rate is the rate at which properties for sale have been or can be sold (marketed) within a specific area. It is helpful in determining supply and demand trends for a market area.

**7. How is the absorption rate determined?**

The absorption rate is determined by dividing the total number of sales for a given market by the time period being analyzed. Example:

If there were 60 sales during the 6-month time period being analyzed, the absorption rate would be 10 sales per month (60 divided by 6). If there are 240 active listings there would be a 24 month supply of homes on the market (240 divided by 10).

This calculation may support an appraiser's conclusion that there is an oversupply of homes on the market. Anomalies in the data such as seasonal markets, new construction, or other factors must be addressed in the form.

**8. Is the Median Sale Price as % of List Price determined by dividing the Median Comparable Sale Price by the Median Comparable List Price from the preceding data on the form, or is it based only on comparables for sold properties?**

The Median Sale Price as % of List Price is to be determined by analyzing the comparables that have sold and settled during the specific time frame, not by using the data from the lines above this section on the form.

**9. When the Inventory Analysis is completed, should the data that is entered show a trend?**

The data may show a trend/direction or no trend at all. However, it is important to remember that the time periods for the analysis include one six-month period and two three-month periods. The appraiser must properly analyze the first column before determining any trend.

**10. Is the Market Conditions Addendum required for the DU property inspection report?**

No, the DU property inspection report is not an appraisal, so the addendum is not required to be provided with the report.

***New Policies and Clarifications of Existing Policies (Announcement 08-30)***

**11. Will Fannie Mae purchase loans secured by properties in areas where the appraiser indicates there is an oversupply of houses, prices are declining, and/or the average marketing time is greater than six months?**

Yes, Fannie Mae purchases loans secured by properties in all markets across the country.

**12. Will Fannie Mae accept a loan for which the lender has requested the appraiser to appraise only a portion of a larger piece of property?**

No. Fannie Mae expects that the appraisal will reflect the value attributable to the entire property. It is important for the underwriter and Fannie Mae to fully understand the value of the property that is serving as security for the loan.

**13. Will Fannie Mae purchase loans with outstanding repair or completion escrows on an existing property?**

Yes, as long as the items for which the escrows were established are reflected in the appraiser's opinion of value and the lender can ensure that they do not affect the livability, soundness, or structural integrity of the property.

**14. Why is Fannie Mae requiring the lender to provide the sales contract to the appraiser?**

Fannie Mae is implementing this policy to help ensure that the appraiser is aware of all relevant aspects of the transaction. The sales contract will provide important sales and financing data, including whether there are any concessions as part of the transaction, so the appraiser can consider the effect on property value. If the sales contract is amended during the sales process, the lender must provide the updated contract to the appraiser.

**15. How should the appraiser determine appropriate adjustments for sales concessions on the comparables?**

The appraiser must consider the impact a sales concession had on the transaction. The adjustments must reflect the difference between what the comparables actually sold for with the sales concessions and what they would have sold for without the concessions, so the dollar amount of the adjustments will approximate the reaction of the market to the concessions.

## **General**

### **16. What is the appraiser's responsibility for reporting property condition?**

The appraiser is responsible for considering all factors that have an impact on value in the development of his/her opinion of market value for the subject property. Fannie Mae requires the appraiser to express an opinion about the condition of the property on our appraisal report forms. The appraiser must report the condition of the property in factual, specific terms. We believe that an accurate description of the physical condition of the subject property is a critical element in arriving at a supportable opinion of market value, as well as in the prudent underwriting of a mortgage loan.

With the introduction of the Market Conditions Addendum, the appraiser must provide information about market conditions in the neighborhood of the subject property to provide additional support for his/her conclusions about the property's value.

### **17. What is expected with regard to the appraiser's inspection of a property?**

Fannie Mae's requirement of the appraiser's property inspection for an appraisal based on an interior and exterior inspection is a complete visual inspection of the accessible areas of the property. The appraiser is responsible for noting in his/her report any adverse conditions (such as, but not limited to, needed repairs; deterioration; the presence of hazardous wastes, toxic substances, or adverse environmental conditions;) that were apparent during the inspection of the property **or** that he/she became aware of during the research involved in performing the appraisal.

The appraiser is expected to consider and describe the overall quality and condition of the property and identify items that require immediate repair as well as items where maintenance may have been deferred, which may or may not require immediate repair. On the other hand, an appraiser is not responsible for hidden or unapparent conditions. In addition, Fannie Mae does not consider the appraiser to be an expert in all fields, such as environmental hazards. In situations where an adverse property condition may be observed by the appraiser but the appraiser is not qualified to decide whether that condition requires immediate repair (such as the presence of mold, an active roof leak, settlement in the foundation, etc.), the property must be appraised subject to an inspection by a qualified professional. In such cases, the lender may need to ask the appraiser to update his or her appraisal based on the results of the inspection, in which case the appraiser would incorporate the results of the inspection and measure the impact, if any, on his or her final opinion of market value.

### **18. In what situations should a property be appraised "as-is" versus "as-repaired"?**

Fannie Mae permits an appraisal to be based on the "as-is" condition of the property as long as any minor conditions, such as deferred maintenance, do not affect the livability, soundness, or structural integrity of the property, and the appraiser's opinion of value reflects the existence of these conditions. Minor conditions and deferred maintenance items include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass. Minor conditions and deferred maintenance typically are due to normal wear and tear from the aging process and the occupancy of the property. Such conditions generally do not rise to the level of a "required repair." Nevertheless, they must be reported.

The appraiser must identify physical deficiencies that could affect the soundness, structural integrity, or livability of the property as part of his or her description of the physical condition of the property. These may include cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, inadequate electrical service or plumbing fixtures, etc. In situations where an adverse property condition may be observed by the appraiser but the appraiser is not qualified to decide whether that condition requires immediate repair, the property must be appraised subject to an inspection by a qualified professional. In such cases, the lender must have the property inspected and any material conditions repaired before it delivers the mortgage loan to Fannie Mae. The appraiser may be asked to update his or her appraisal based on the results of the inspection, in which case the appraiser would incorporate the results of the inspection and measure the impact, if any, on his or her final opinion of market value.

**19. What is expected with regard to the appraiser's reporting on the Scope of Work for an appraisal?**

The Scope of Work for an appraisal based on an interior and exterior property inspection is determined by the complexity of the appraisal assignment and the reporting requirements of the appraisal report form, including the stated Definition of Market Value, Statement of Assumptions and Limiting Conditions, and Certifications. The appraiser is required, at a minimum, to:

- perform a complete visual inspection of the interior and exterior areas of the subject property;
- inspect the neighborhood;
- inspect each of the comparable sales, at least from the street;
- research, verify, and analyze data from reliable public and/or private sources; and
- report his or her analysis, opinions, and conclusions in the appraisal report.

The stated Scope of Work on the appraisal report forms reflects the minimum level of research and analysis required. The appraiser can expand the minimum Scope of Work for the appraisal and report on any additional research or analysis that was necessary and performed based on the complexity of the appraisal assignment. The need for an expanded Scope of Work is specific to the particular appraisal assignment and should be the exception, not the norm, for appraisals on typical one-unit properties.

The Fannie Mae *Selling Guide*, Announcements, and forms are available at [www.efanniemae.com](http://www.efanniemae.com).

**Attachment: Guidelines for Using Form 1004MC**

## ***Attachment***

### **Guidelines for Using Form 1004MC**

The Form 1004MC is intended to provide the lender with a clear and accurate understanding of the market trends and conditions prevalent in the subject neighborhood. The form provides the appraiser with a structured format to report the data and to more easily identify current market trends and conditions. The appraiser's conclusions are to be reported in the "Neighborhood" section of the appraisal report.

Fannie Mae recognizes that all of the requested data elements for analysis are not equally available in all markets. In some markets it may not be possible to retrieve the total number of comparable active listings from earlier periods. If this is the case, the appraiser must explain the attempt to obtain such information. Also, there may be markets in which the data is available in terms of an "average" as opposed to a "median." In this case, the appraiser needs to note that his or her analysis has been based on an "average" representation of the data. Regardless of whether all requested information is available, the appraiser must provide support for his or her conclusions regarding market trends and conditions.

#### ***Inventory Analysis Section***

The "Inventory Analysis" section assists the appraiser in analyzing important supply and demand factors in order to reach a conclusion regarding housing trends and market conditions. When completing this section, the appraiser must include the comparable data that reflects the total pool of comparable properties from which a buyer may select a property in order to analyze the sales activity and the local housing supply. One of the tools used to monitor these trends is the absorption rate. The absorption rate is the rate at which properties for sale have been or can be sold (marketed) within a given area. To determine the absorption rate, the appraiser divides the total number of settled sales by the time frame being analyzed. The months of housing supply is based on the total listings for the applicable period divided by the absorption rate.

#### **EXAMPLE**

Step 1: Calculate the absorption rate. If there were 60 sales during a 6 month period (e.g., "Prior 7–12 Months" column), the absorption rate is 10 sales per month (60/6).

Step 2: Calculate the months of housing supply. If there are 240 active listings, there is a 24-month supply of homes on the market (240 active sales/10 sales per month). This may support the appraiser's conclusion that there is an over-supply of homes on the market. Anomalies in the data such as seasonal markets, new construction, or other factors must be addressed in the form.

#### ***Median Sale and List Price, DOM, List/Sale Ratio Section***

The appraiser must analyze additional trends, including the changes in median prices and days on the market (DOM) for both sales and listings, as well as a change in list-to-sales price ratios.

#### **EXAMPLE**

If the median comparable sale prices are \$300,000, \$295,000, and \$305,000 for their respective time periods, the overall trend for the prior 12 months is relatively "stable."





### ***Overall Trend Section***

The “Overall Trend” section is designed to reflect potential positive trends, neutral trends, or negative trends in inventory, median sale and list price, days on market, list-to- sale price ratio, and seller concessions.

#### **EXAMPLE**

An increase in the absorption rate is generally viewed as a positive trend, whereas a decrease in the absorption rate may be viewed as a negative trend. Furthermore, a decrease in the number of days on the market, either sales or listings, more than likely represents an overall positive trend.

### ***Seller Concessions***

Form 1004MC also provides a section for comments on the prevalence of seller concessions and the trend in seller concessions for the past 12 months. The change in seller concessions within the market provides the lender with additional insight into current market conditions. The appraiser should consider and report on seller-paid (or third-party) costs. Examples of these items include, but are not limited to mortgage payments, points and fees, and in condominium or cooperative projects, items such as homeowners’ association fees and guaranteed rental programs. Seller concessions must be carefully analyzed by the appraiser since excessive concessions often lead to inflated property values.

There are a number of markets across the country where, due to current conditions, there has been an increase in the prevalence of seller concessions being paid. The Fannie Mae *Selling Guide* provides guidance for these circumstances.

### ***Foreclosure Sales and Summary/Analysis of Data***

The presence and extent of foreclosure/REO sales is worthy of comment when analyzing market data and must be reported on the form. The form also allows for the appraiser to summarize the data and provide other data analysis or additional information, such as analysis of pending sales, which over time can show a market trend.