

omitted will not be counted in the debt-to-income ratio.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

# Subpart B4, Underwriting Property

## Introduction

This subpart contains property underwriting and appraisal requirements for conventional loans.

## Chapter B4-1, Property Assessment and Valuation

### Introduction

This chapter explains Fannie Mae's property assessment and valuation requirements, including documentation, appraisal and data collection requirements.

### Section B4-1.1, General Appraisal Requirements

#### B4-1.1-01, Definition of Market Value (04/15/2014)

##### Introduction

This topic contains information on the definition of market value.

- [Definition of Market Value](#)

##### Definition of Market Value

Market value is the most probable price that a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what they consider to be in their own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

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

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.1-02, Lender Responsibilities (08/02/2023)

### Introduction

This topic contains information on lender requirements, including:

- [Lender Responsibilities](#)
- [Confirmation and Documentation of the Current Owner](#)
- [Objective and Unbiased Appraisals](#)
- [Reporting Unfavorable Conditions](#)

## Lender Responsibilities

The lender is responsible for ensuring that the subject property provides adequate collateral for the mortgage. For most loans, Fannie Mae requires that the lender obtain a signed and complete appraisal report that accurately reflects the market value, condition, and marketability of the property. Some loans may be eligible for a value acceptance option, and an appraisal is not required if the lender exercises the option and complies with the related requirements. (See [B4-1.4-10, Value Acceptance \(Appraisal Waiver\)](#) and [B4-1.4-11, Value Acceptance + Property Data](#), for additional information.)

If an appraisal is obtained, the lender is responsible for

- compliance with the [Appraiser Independence Requirements](#);
- selection of the appraiser (see [B4-1.1-03, Appraiser Selection Criteria](#));
- compliance with the Uniform Appraisal Dataset (UAD) when applicable (see [B4-1.1-06, Uniform Appraisal Dataset \(UAD\) and the Uniform Collateral Data Portal \(UCDP\)](#));
- ensuring the appraiser has utilized sound reasoning and provided evidence to support the methodology chosen to develop the value opinion, particularly in cases that are not covered by Fannie Mae policy;
- successful submission of the appraisal through the UCDP prior to delivery (see [B4-1.1-06, Uniform Appraisal Dataset \(UAD\) and the Uniform Collateral Data Portal \(UCDP\)](#)); and
- continually evaluating the appraiser's work through the quality control process (see [B4-1.3-12, Quality Assurance](#)).

If the transaction involves property data collection, the lender is responsible for

- compliance with the [Property Data Collector Independence Requirements](#);
- selection of the property data collector (see [B4-1.4-11, Value Acceptance + Property Data](#));
- successful submission of the data to Fannie Mae's Property Data API prior to loan delivery; and
- continually evaluating the property data collector's work through the quality control process (see [D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection](#)).

## Confirmation and Documentation of the Current Owner

Confirmation that the property seller in a purchase money transaction (or the borrower in a refinance transaction) is the owner of the subject property based on publicly available information helps to identify property flipping schemes, which typically involve various combinations of transactions and result in a sale of a recently acquired property for significant profit based on a misleading or fraudulent appraisal with an inflated property value.

Lenders must confirm and document in the mortgage file that the property seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property when an appraisal is required. Examples of acceptable documentation include, but are not limited to:

- a copy of a recorded deed, mortgage, or deed of trust,
- a recent property tax bill or tax assessment notice,
- a title report,
- a title commitment or binder, or

- a property sale history report.

This documentation is especially important for transactions involving an assignment (or sale) of a contract for sale and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing, and closing.

When the transaction is part of an employee relocation, the relocation company may be the assignee of the seller, which should be indicated on the sales contract. Additionally, the appraiser must comment on this condition in the appraisal report.

## Objective and Unbiased Appraisals

A lender must ensure that the appraiser

- described the property and the neighborhood in factual, unbiased, and specific terms;
- considered all factors that have an effect on value; and
- was objective and unbiased in the development of the opinion of market value in the appraisal report.

A number of federal, state, and local laws prohibit discrimination in the appraisal of housing. Fannie Mae expects professional appraisers to fully understand that discriminatory valuation and appraisal reporting practices are not only illegal, but also unethical. Unintentional discrimination can occur in the appraisal report as the result of what an appraiser states, or fails to state. The lender and appraiser must ensure the appraisal is not in violation of any unacceptable appraisal practices (see [B4-1.1-04, Unacceptable Appraisal Practices](#)).

## Reporting Unfavorable Conditions

The lender must ensure that appraiser comments regarding unfavorable conditions, such as the existence of an adverse environmental or economic factor, also discuss how the condition affects the value or marketability of the property being appraised and explain how the condition was taken into consideration in the valuation process. In such cases, the appraiser’s analysis must reflect and include comparable sales that are similarly affected whenever possible. The appraiser must address the impact these factors may have, if any, on the value and marketability of the subject property. (See [B4-1.3-06, Property Condition and Quality of Construction of the Improvements](#), for further information).

## Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-07</a>	August 02, 2023

Announcements	Issue Date
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2021-10</a>	November 03, 2021

## B4-1.1-03, Appraiser Selection Criteria (10/05/2022)

### Introduction

This topic contains general information on appraiser selection, including:

- [Appraiser License and Certification](#)
- [Appraiser Trainees](#)
- [Knowledge and Experience](#)
- [Selection of the Appraiser](#)
- [Supervisory Appraiser](#)

### Appraiser License and Certification

Fannie Mae requires a lender (or its authorized agent) to use appraisers or supervisory appraisers that are state-licensed or state-certified (in accordance with the provisions of Title XI of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 and all applicable state laws). The lender (or its authorized agent) must document that the appraisers it uses are licensed or certified as appropriate under the applicable state law. The lender must ensure that the state license or state certification is active as of the effective date of the appraisal report. The appraiser must note their license or certification number on the individual appraisal report forms, in compliance with the Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements.

Fannie Mae's appraisal report forms identify the appraiser as the individual who

- performed the analysis, and
- prepared and signed the appraisal report as the appraiser.

This does not preclude appraisers from relying on individuals who are not state-licensed or state-certified to provide significant professional assistance, such as an appraiser trainee or an employee of the appraiser doing market data research or data verification in the development of the appraisal. Under some state laws, a lender's use of an unlicensed or uncertified appraiser that is working as an employee or sub-contractor of a licensed or

certified appraiser will satisfy the state's licensing and certification requirement, as long as the appraisal report is signed by a state-licensed or state-certified supervisory or review appraiser. The state-licensed or state-certified appraiser that signs the appraisal report must acknowledge in the report the extent of the professional assistance provided by others and the specific tasks performed by each individual, and must certify that each named individual is qualified to perform the tasks.

## Appraiser Trainees

Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) to perform a significant amount of the appraisal (or the entire appraisal if they are qualified to do so). If an unlicensed or uncertified individual provides significant professional assistance, they must sign the left side of the appraiser certification as the Appraiser if

- they are working under the supervision of a state-licensed or state-certified appraiser as an employee or sub-contractor,
- the right side of the appraiser certification is signed by that supervisory appraiser, and
- it is acceptable under state law.

If the jurisdiction does not provide license numbers for trainees, the term "Trainee" should be entered in the "Other" field in the Appraiser Certification section.

## Knowledge and Experience

Lenders must use appraisers that

- have the requisite knowledge required to perform a professional quality appraisal for the specific geographic location and particular property type; and
- have the requisite knowledge about, and access to, all necessary and appropriate local data sources for the subject property's geographic area, including multiple listing service(s) and government records.

Appraisers that are not familiar with specific real estate markets may not have adequate information available to perform a reliable appraisal. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser that does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, Fannie Mae does not allow the USPAP flexibility.

## Selection of the Appraiser

The lender

- is responsible for the selection of appraisers and for the qualifications and quality of work provided by the appraisers that are selected;
- may not use appraisals ordered or received by borrowers or other parties with an interest in the transaction, such as the property seller or real estate agent. Fannie Mae does allow lenders to use third-

party vendors (for example, appraisal management companies) to manage the appraiser selection process. However, it should be noted that if a lender enters into a contract with any vendor, contractor, or third-party service provider, the lender is accountable for the quality of the work performed as if it was performed by an employee of the lender.

The lender (or its authorized agent)

- must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements, including the [Appraiser Independence Requirements](#).
- must ensure that an appraiser has demonstrated the ability to perform high-quality appraisals before using an appraiser's services. The quality of an appraiser's work is a key criterion that must be used in determining which appraiser the lender (or its authorized agent) uses for its assignments. The requirement for an appraiser to produce a high-quality work product must always outweigh fee or turnaround time considerations.

Delegating these responsibilities to a third party does not relieve the lender of its responsibilities related to the appraisal or the value, condition, and marketability of the property. See [B4-1.3-12, Quality Assurance](#), for information related to ongoing review of appraisals.

**Note:** Fannie Mae does not approve appraisers. Therefore, when selecting appraisers, lenders must not give any consideration to an appraiser's representation that they are approved or qualified by Fannie Mae.

## Supervisory Appraiser

As noted in the License and Certification section in this topic, Fannie Mae allows an unlicensed or uncertified appraiser, or trainee (or other similar classification) that 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 they are 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.

If a supervisory appraiser is used, the supervisory appraiser does not need to physically inspect the subject property or comparables, but must sign the right side of the report and certify that they

- directly supervised the appraiser that prepared the appraisal report,
- have reviewed the appraisal report,
- agree with the statements and conclusions of the appraiser,
- agree to be bound by certifications as set forth in Fannie Mae's appraisal report forms, and
- take full responsibility for the appraisal report.

A supervisory appraiser may not sign the left-hand side of the appraisal report unless they have met the requirements of the appraiser as noted in the License and Certification section in this topic.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2022-09</a>	October 05, 2022
<a href="#">Announcement SEL-2022-01</a>	February 02, 2022

## B4-1.1-04, Unacceptable Appraisal Practices (02/07/2024)

### Introduction

This topic contains examples of unacceptable practices, many of which are reflected in the appraiser's certifications on the appraisal reports.

- [Unacceptable Appraisal Practices](#)

### Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- development of or reporting an opinion of market value that is not supportable by market data or is misleading;
- development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- **reference to crime rate or related data;**
- use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
  - "pride of ownership," "no pride of ownership," and "lack of pride of ownership";
  - "poor neighborhood";
  - "good neighborhood";
  - **"crime" (and its variants);**
  - "desirable neighborhood or location"; or



- "undesirable neighborhood or location";
- development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;
- failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
- failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales;
- selection and use of inappropriate comparable sales;
- failure to use comparable sales that are the most locationally and physically similar to the subject property;
- creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
- failure to personally inspect the exterior of the comparable property when required by the scope of work in the appraisal report;
- use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
- not supporting adjustments in the sales comparison approach;
- failure to make adjustments when they are clearly indicated;
- use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser's verification of the information from a disinterested source;
- development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
- development of or reporting an appraisal in a manner that is inconsistent with the requirements of USPAP.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2024-01</a>	February 07, 2024
<a href="#">Announcement SEL-2022-01</a>	February 02, 2022

Announcements	Issue Date
<a href="#">Announcement SEL-2021-10</a>	November 03, 2021

## B4-1.1-05, Disclosure of Information to Appraisers (12/06/2016)

### Introduction

This topic contains information on lender disclosure of information to appraisers, including:

- [Overview](#)
- [Sales Contract Information](#)
- [Information Disclosed to the Appraiser](#)
- [Contract Changes After the Appraisal is Completed](#)

### Overview

Any and all information about the subject property that the lender is aware of must be disclosed to the appraiser. The appraiser must determine if the information could affect either the marketability of the property or the opinion of the market value of the property.

### Sales Contract Information

All financing data and sales concessions for the subject property that will be or have been granted by anyone associated with the transaction must be disclosed to the appraiser, as appropriate. Typically, this information is provided in the sales contract. Therefore, the lender must provide, or ensure that the appraiser is provided with, a copy of the complete, ratified sales contract and all addenda for the property that is to be appraised.

### Information Disclosed to the Appraiser

#### Financial Information

The list below includes items that must be disclosed to the appraiser on purchase transactions, if applicable:

- settlement charges,
- loan fees or charges,

- discounts to the sales price,
- interest rate buydowns,
- below-market-rate financing,
- terms of any subordinate financing provided by interested parties,
- credits or refunds of borrower expenses,
- absorption of monthly payments,
- assignment of rent payments, and
- any other information not listed above that impacts property value.

### Property Information

The list below includes items that must be disclosed, if applicable:

- condo or PUD fees;
- non-realty items included in the transaction;
- any environmental hazard in or on the subject property or in the vicinity of the property that the lender is aware of or learns from the borrower, the real estate agent, or any other party to the transaction (see [B4-1.4-08, Environmental Hazards Appraisal Requirements](#)); and
- any other items that affect the safety, soundness, or structural integrity of a property of which the lender may be aware.

### Contract Changes After the Appraisal is Completed

If the contract is amended *after* the effective date of the appraisal in a way that does not affect the description of the property, then the lender is not required to provide the amended contract to the appraiser nor obtain a revised appraisal. Some examples of amendments that do not require the lender to provide the amended contract nor obtain revisions to the already-completed appraisal report include:

- sale price,
- transaction terms,
- financing concessions,
- seller-paid closing costs,
- names or initials,
- closing date, and
- correction of minor clerical errors such as misspellings.

### Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.1-06, Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (02/02/2022)

### Introduction

This topic contains information on the Uniform Appraisal Dataset and the Uniform Collateral Data Portal, including:

- [Uniform Appraisal Dataset \(UAD\)](#)
- [Uniform Collateral Data Portal \(UCDP\)](#)

### Uniform Appraisal Dataset (UAD)

The UAD standardizes appraisal data elements for a subset of fields on specific appraisal report forms and includes all data elements required to complete these forms. Fannie Mae requires that the following appraisal report forms are completed utilizing Appendix D of the UAD Specification when reporting the results of an appraisal for a conventional loan:

- *Uniform Residential Appraisal Report* ( [Form 1004](#)), and
- *Individual Condominium Unit Appraisal Report* ( [Form 1073](#)).

**Note:** *Uniform Residential Appraisal Report (Desktop)* ([Form 1004 Desktop](#)) should adhere to the UAD specification for [Form 1004](#).

Other appraisal report forms may be completed using the standards contained in the UAD Specification to the extent those standards are applicable to that particular form. Lenders may obtain the most recent version of Appendix D of the Uniform Appraisal Dataset Specification and additional information on Fannie Mae's [website](#).

### Uniform Collateral Data Portal (UCDP)

The UCDP is a portal through which lenders are required to electronically submit appraisal reports for conventional loans delivered to Fannie Mae. The following appraisal report forms including all exhibits, addenda, and photographs, must be submitted through the UCDP and receive a "Successful" status from the UCDP prior to the delivery date of the loan:

- *Uniform Residential Appraisal Report* ( [Form 1004](#)),
- *Uniform Residential Appraisal Report (Desktop)* ([Form 1004 Desktop](#)),
- *Manufactured Home Appraisal Report* ( [Form 1004C](#)),
- *Small Residential Income Property Appraisal Report* ([Form 1025](#)),
- *Individual Condominium Unit Appraisal Report* ( [Form 1073](#)), and

- *Individual Cooperative Interest Appraisal Report* ( [Form 2090](#)).

If there are subsequent revisions to the appraisal report, the final version of the report that was utilized in making the underwriting decision must be submitted through the UCDP and receive a “Successful” status from the UCDP prior to the delivery of the loan. When submitting an appraisal report through the UCDP, lenders must ensure that it is the unaltered report submitted by the identified appraiser.

Additionally, for loans that require an appraisal, lenders must ensure that the appraised value as indicated on the appraisal submitted in UCDP matches the appraised value as reported at delivery. An exception is allowed for this requirement when the appraisal used to underwrite the loan is a desk or field review of an existing appraisal because those types of reports cannot be uploaded to UCDP. In those instances, the appraised value reported at delivery will reflect the value as stated in the desk or field review. However, the original appraisal that was the subject of review must have been submitted to UCDP.

Appraisal report forms not listed above cannot be delivered through UCDP with the exception of the *Appraisal Update and/or Completion Certificate* ( [Form 1004D](#) ), which is optional. Lenders must maintain the applicable appraisal report and attachments in the loan file as part of the underwriting documents in accordance with [A2-4.1-02, Ownership and Retention of Loan Files and Records](#). Lenders may obtain detailed information on the UCDP page on Fannie Mae’s website.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2022-01</a>	February 02, 2022
<a href="#">Announcement SEL-2019-06</a>	July 03, 2019

## Section B4-1.2, Documentation Standards

### B4-1.2-01, Appraisal Report Forms and Exhibits (02/07/2024)

## Introduction

This topic contains information on appraisal report forms and exhibits, including:

- [Scope of Work](#)
- [List of Appraisal Report Forms](#)
- [Exhibits for Appraisals](#)
- [Appraiser Certifications and Limiting Conditions](#)

## Scope of Work

Appraisers must use the most recent version of the appraisal report forms and include any other information, either as an attachment or addendum to the appraisal report form, needed to adequately support the opinion of market value. Although the scope of work for the appraisal or the extent of the appraisal process is guided by Fannie Mae's appraisal report forms, the forms do not limit or control the appraisal process. The appraiser's analysis should go beyond any limitations of the forms, with additional comments and exhibits being used if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting must be determined by the complexity of the appraisal assignment.

## List of Appraisal Report Forms

Appraisal reports must be completed on one of the following Fannie Mae appraisal forms.

Form	Purpose
<p><i>Uniform Residential Appraisal Report (Form 1004)</i></p>	<p>For traditional appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) based on an interior and exterior on-site physical inspection of the property by the appraiser. Form 1004 also may be used for two-unit properties, if each of the units is occupied by one of the co-borrowers as their principal residence or if the value of the legal second unit is relatively insignificant in relation to the total value of the property (as might be the case for a basement unit or a unit over a garage). In addition, appraisals for units in condo projects that consist solely of detached dwellings may be documented on Form 1004, if the appraiser includes an adequate description of the project and information about the homeowners' association fees and the quality of the project maintenance. Appraisals reported on Form 1004 must be completed in accordance with the <a href="#">UAD Specification</a>.</p>

Form	Purpose
<i>Uniform Residential Appraisal Report (Desktop) (Form 1004 Desktop)</i>	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) that are not based on an interior and exterior on-site physical inspection of the property by the appraiser. The property data may be collected through secondary data sources or by someone other than the appraiser. This form is not designed to report an appraisal for a manufactured home, or for a unit in a condo or co-op project. Appraisals reported on Form 1004 Desktop must be completed in accordance with the UAD Specification.
<i>Uniform Residential Appraisal Report (Hybrid) (Form 1004 Hybrid)</i>	For appraisals of one-unit properties and units in PUDs (including those that have an illegal second unit or accessory dwelling unit) that are based on interior and exterior property data collection. This form is not designed to report an appraisal for a manufactured home, or for a unit in a condo or co-op project. Appraisals reported on Form 1004 Hybrid must be completed in accordance with the UAD Specification.
<i>Manufactured Home Appraisal Report (Form 1004C)</i>	For traditional appraisals of one-unit manufactured homes (including manufactured homes in a PUD, condo, or co-op project, and MH Advantage properties) based on interior and exterior property inspections.
<i>Individual Condominium Unit Appraisal Report (Form 1073)</i>	For traditional appraisals of one-unit properties in condo projects based on interior and exterior property inspections. Appraisals reported on Form 1073 must be completed in accordance with the UAD Specification.
<i>Individual Condominium Unit Appraisal Report (Hybrid) (Form 1073 Hybrid)</i>	For appraisals of one-unit (attached and detached) properties in condo projects that are based on interior and exterior property data collection. Appraisals reports on Form 1073 Hybrid must be completed in accordance with the UAD Specification.
<i>Individual Cooperative Interest Appraisal Report (Form 2090)</i>	For traditional appraisals of one-unit properties in co-op projects based on interior and exterior property inspections
<i>Small Residential Income Property Appraisal Report (Form 1025)</i>	For traditional appraisals of two- to four-unit properties (including two- to four-unit properties in PUD, condo, or co-op projects) based on interior and exterior property inspections.

Form	Purpose
<i>Appraisal Update and/or Completion Report (Form 1004D)</i>	For appraisal updates and/or completion reports for all one- to four-unit properties. See <a href="#">B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements</a> for information about completion alternative methods for the Form 1004D.

## Exhibits for Appraisals

The exhibits in the following table must accompany the appraisal report. It should be noted that, in addition to these requirements, the appraiser is expected to provide any additional attachments or addenda to the appraisal report necessary to provide an adequately supported opinion of market value.



Exhibit	Requirements
<p>Building footprint sketch or floor plan and calculations</p>	<p>A footprint sketch or floor plan must be software-generated (not hand drawn) and indicate dimensions and calculations that demonstrate how the gross living area was derived. The sketch must include the subject's exterior footprint with dimensions. All levels of the dwelling unit(s) must be part of the exhibit. In addition, a separate footprint sketch including dimensions must be provided for each additional structure with room labels, when applicable.</p> <p>A floor plan is required for certain appraisal reports. Refer to the "STATEMENT OF ASSUMPTIONS AND LIMITING CONDITIONS" included in each Fannie Mae appraisal report to determine if a floor plan is required.</p> <p>If the interior layout of the dwelling unit(s) is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, Fannie Mae also requires a floor plan. The floor plan must include the following:</p> <ul style="list-style-type: none"> <li>• interior walls,</li> <li>• doorways,</li> <li>• staircases,</li> <li>• exterior ingress/egress,</li> <li>• labels for each room, and</li> <li>• provide the dimensions of all exterior walls.</li> </ul> <p>For a unit in an apartment-style condo or co-op project, the sketch of the unit must indicate interior perimeter unit dimensions rather than exterior building dimensions (dimensions and estimates for gross living area shown in the condo documents are acceptable). See <i>Gross Living Area</i> in <a href="#">B4-1.3-05, Improvements Section of the Appraisal Report</a> for additional information.</p>
<p>Street map</p>	<p>A map showing the location of the subject property and the comparables that the appraiser used.</p>
<p>Exterior photographs</p>	<p>Clear, descriptive color photographs showing the front, back, and a street scene of the subject property and the front of each comparable. The subject and all comparables must be appropriately identified.</p> <p>Photographs of comparable rentals utilized in the <i>Small Income Residential Appraisal Report (Form 1025)</i> are not required.</p>

Exhibit	Requirements
Interior photographs	<p>At a minimum, the appraisal report must include photographs of the following:</p> <ul style="list-style-type: none"> <li>• the kitchen;</li> <li>• all bathrooms;</li> <li>• main living areas of the property (such as living room, family room, dining room, all bedrooms, etc.);</li> <li>• basement, including all finished and unfinished rooms;</li> <li>• examples of physical deterioration, if present; and</li> <li>• examples of recent updates, such as restoration, remodeling, and renovation, if present.</li> </ul> <p><b>Note:</b> Interior photographs on proposed or under construction properties may be taken at the time of the completion inspection and included with Form 1004D.</p>
<i>Appraisal Update and/or Completion Report ( Form 1004D)</i>	At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.
<i>Single-Family Comparable Rent Schedule ( Form 1007)</i>	Required if the property is a one-unit investment property and the borrower is using rental income to qualify. Otherwise, Form 1007 is not required. (The lender may obtain this form for the purpose of reporting gross monthly rent at delivery. See <i>Reporting of Gross Monthly Rent</i> in <a href="#">B3-3.1-08, Rental Income.</a> )

## Appraiser Certifications and Limiting Conditions

Each Fannie Mae appraisal report form includes an appraiser’s certification (and, if applicable, a supervisory appraiser’s certification) and a statement of assumptions and limiting conditions. Appraisers may not add limiting conditions.

The appraiser may not make changes or deletions to the existing certifications; however, the appraiser may make additional certifications that can be included on a separate page or form. Acceptable additional certifications might include:

- those required by state law;
- those related to the appraiser’s continuing education or membership in an appraisal organization; or
- those related to the appraiser’s compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal and the information on which it is based.

Lenders are responsible for reviewing any additional certifications made by appraisers to ensure that they do not conflict with Fannie Mae’s policies or standard certifications on Fannie Mae appraisal forms.

The appraiser’s certification #23 is an acknowledgment by the appraiser that certain parties to a mortgage finance transaction that are not the lender/client and/or intended user may rely on the appraisal report. This certification clarifies that such other parties include the borrower, another lender at the request of the borrower, the mortgagee or its successors and assigns, mortgage insurers, government-sponsored enterprises, and other secondary market participants.

Fannie Mae will accept the following additional notice or statement when appraisers believe the lender/client is the only intended user:

“The intended user of this appraisal report is the lender/client. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the stated scope of work, purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser.”

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2024-01</a>	February 07, 2024
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2022-09</a>	October 05, 2022
<a href="#">Announcement SEL-2022-03</a>	April 06, 2022
<a href="#">Announcement SEL-2022-01</a>	February 02, 2022
<a href="#">Announcement SEL-2021-11</a>	December 15, 2021
<a href="#">Announcement SEL-2019-06</a>	July 03, 2019

## B4-1.2-02, Desktop Appraisals (12/14/2022)

### Introduction

This topic contains information on desktop appraisals, including:

- [Overview](#)
- [Completing the Form 1004 Desktop](#)
- [Eligible Transactions](#)
- [Ineligible Transactions](#)
- [Representations and Warranties](#)

### Overview

A desktop appraisal reported on the *Uniform Residential Appraisal Report (Desktop)* ([Form 1004 Desktop](#)) is permitted for certain transactions. The minimum scope of work for Form 1004 Desktop does not include a current inspection of the subject property or comparable sales by the appraiser; the appraiser relies on data obtained from alternative methods or sources to identify property characteristics and condition.

### Completing the Form 1004 Desktop

Subject property information may be obtained from one or more data sources. The appraiser can accept data, photos, floor plans, and other information from a party who has a financial interest in the sale or financing of the property if the appraiser verifies such data from a disinterested source. The appraiser must determine if the information is accurate and reliable to produce a credible report, which includes the features, quality, and condition of the subject property.

Virtual inspection methods (including digital photos or videos) or other technological solutions (such as a machine-generated floor plan) can augment the data and imagery used for a desktop appraisal. Information provided by the homeowner, potential borrower, or a third party can be used to develop the description of the interior and exterior of the improvements. Extraordinary assumption(s) or appraisals made "subject to" verification of the subject property's condition, quality, or physical characteristics are not permitted.

The lender remains responsible for the description of the property, and the accuracy and of all data on the appraisal that pertains to the property. This includes the property's condition and quality ratings. The lender is also responsible for ensuring the property meets the property eligibility requirements in this *Selling Guide*. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

**Exhibits:** [Form 1004 Desktop](#) requires the same exhibits as traditional appraisals, plus a floor plan. The Square Footage-Method for Calculating: ANSI Z765-2021 standard and exception code (GXX001- in the Additional Features field) is not required for desktop appraisals, but encouraged when feasible. See [B4-1.2-01, Appraisal Report Forms and Exhibits](#) for additional information.

**Entry of Appraisal Assignment Type:** The appraiser must provide the Appraisal Assignment Type and supporting details (located in the Additional Comments section of the appraisal report) as shown in the following table.

Field Labels	Required Entry
Appraisal Assignment Type	"DesktopAppraisal"
Subject Property Data Collection Method	"Other"
Subject Property Data Collection Date	"Null"
Subject Property Data Workforce	"Null"

**DU Messaging:** For loan casefiles that are eligible for a desktop appraisal option, DU will issue a message informing the lender they can choose to obtain an appraisal reported on [Form 1004 Desktop](#). DU will also issue messages for other appraisal options. The lender may select from any of the options presented, which may include a value acceptance (appraisal waiver), desktop appraisal, or traditional appraisal.

## Eligible Transactions

To be eligible for a desktop appraisal, transactions must meet the following criteria:

- one-unit property (including those with an ADU and units in a PUD),
- principal residence,
- purchase transaction (including new construction),
- LTV ratio less than or equal to 90%, and
- DU loan casefile that receives an Approve/Eligible recommendation.

## Ineligible Transactions

The following transactions are not eligible for a desktop appraisal:

- two- to four-unit properties;
- condo and co-op units;
- manufactured homes;
- construction-to-permanent loans (single-close and two-close);
- second homes and investment properties;
- all refinances;
- HomeReady, HomeStyle Renovation, and HomeStyle Energy loans;
- Community Seconds with a subsidized sales price;
- Community land trusts, or other properties with resale price restrictions (loan casefiles using the Affordable LTV feature);
- DU loan casefiles that receive an Ineligible recommendation; and

- manually underwritten loans.

## Representations and Warranties

When a desktop appraisal is reported on [Form 1004 Desktop](#) and submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a desktop appraisal that receive a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal value of the subject property (see [A2-2-06, Representations and Warranties on Property Value](#) for complete requirements and additional information).

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2022-10</a>	December 14, 2022
<a href="#">Announcement SEL-2022-03</a>	April 06, 2022
<a href="#">Announcement SEL-2022-01</a>	February 02, 2022

## B4-1.2-03, Hybrid Appraisals (02/07/2024)

### Introduction

This topic contains information on hybrid appraisals, including:

- [Overview](#)
- [Completing the Hybrid Appraisal](#)
- [Eligible Transactions](#)
- [Ineligible Transactions](#)
- [Representations and Warranties](#)

### Overview

A hybrid appraisal reported on the *Uniform Residential Appraisal Report (Hybrid) (Form 1004 Hybrid)* or *Individual Condominium Unit Appraisal Report (Hybrid) (Form 1073 Hybrid)* are permitted for certain transactions. The minimum scope of work for hybrid appraisals includes consideration by the appraiser of interior and exterior property data collection by a trained and vetted third party (such as a real estate agent, insurance inspector, appraiser, etc.). The appraiser relies on the data collected (and other sources if needed) to identify property characteristics including condition. The property data collection must comply with the Uniform Property Dataset and be delivered to the Fannie Mae Property Data API.

## Completing the Hybrid Appraisal

Property data collection and the appraisal report are separate assignments and may be performed by different people. If the appraiser does not perform the data collection, the lender must share the property data collection with the appraiser at the time of engagement. The appraiser will use the data along with other third-party sources to develop the appraisal. The effective date of the hybrid appraisal is the date that the appraiser arrives at their opinion of value.

**Note:** If the appraiser is engaged as a property data collector and at a later date engaged as an appraiser, this is still considered a hybrid appraisal.

The lender remains responsible for verifying the accuracy of the property description and the completeness of the data including the condition and quality ratings as determined by the appraiser. The lender is also responsible for ensuring the property meets the property eligibility requirements in this *Selling Guide*. Lastly, the lender remains responsible for any life-of-loan representations and warranties that may apply to the property or the appraisal.

**Exhibits:** Form 1004 Hybrid and Form 1073 Hybrid require the same exhibits as traditional appraisals with the inclusion of a floor plan conforming to the ANSI standard. See [B4-1.2-01, Appraisal Report Forms and Exhibits](#) for additional information on exhibits and [B4-1.3-05, Improvements Section of the Appraisal Report](#) for additional information on the ANSI standard.

**Entry of Appraisal Assignment Type:** The appraiser must provide the Appraisal Assignment Type and supporting details (located in the Additional Comments section of the appraisal report) as shown in the following table.

Field Labels	Required Entry
Appraisal Assignment Type	"Hybrid"
Subject Property Data Collection Method	"Physical"
Subject Property Data Collection Date	"YYYY-MM-DD"

Subject Property Data Workforce	"Appraiser" "AppraiserTrainee" "RealEstateAgent" "HomeInspector" "InsInspector" (*Insurance Inspector) "Other"
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**Note:** For the Subject Property Data Collection Date, the appraiser must enter the date that the property data collection was performed. For the Subject Property Data Workforce, the appraiser must enter the Workforce indicated in the property data that is one of the six Required Entry enumerations listed above.

## Eligible Transactions

A hybrid appraisal is only permitted when all of these preconditions are met in this sequence:

1. DU determines the loan is eligible for value acceptance + property data.
2. The lender obtains property data and submits it to the Fannie Mae Property Data API.
3. The property data confirms that the property type is residential and not on the Ineligible Transactions list below.
4. The loan loses eligibility in DU for value acceptance + property data due to a change in qualifying loan characteristics.
5. The lender provides the property data collection to an appraiser to perform a hybrid appraisal assignment.

## Ineligible Transactions

The following transactions are not eligible for a hybrid appraisal:

- two- to four-unit properties;
- co-op units;
- manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- HomeStyle Renovation and HomeStyle Energy loans;
- Texas (50)(a)(6) loans;
- community land trusts, or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is \$1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.



## Representations and Warranties

When a hybrid appraisal is reported on Form 1004 Hybrid or Form 1073 Hybrid and submitted through the UCDP, the appraisal will be scored by Collateral Underwriter (CU). All eligible loans with a hybrid appraisal receiving a CU risk score of 2.5 or less are eligible for enforcement relief of certain representations and warranties related to the appraisal value of the subject property (see [A2-2-06, Representations and Warranties on Property Value](#) for complete requirements and additional information).

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Dates
<a href="#">Announcement SEL-2024-01</a>	February 07, 2024
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023

## B4-1.2-04, Appraisal Age and Use Requirements (03/01/2023)

### Introduction

This topic contains information about the following:

- [Age of Appraisal and Appraisal Update Requirements](#)
- [Multiple Appraisals of the Subject Property](#)
- [Use of an Appraisal for a Subsequent Transaction](#)

### Age of Appraisal and Appraisal Update Requirements

When an appraisal is obtained, the property must be appraised within the 12 months prior to the date of the note and mortgage.

When the effective date of the original appraisal report is more than four months but less than 12 months from the date of the note and mortgage, the appraiser must perform an appraisal update that includes inspecting the exterior of the property and reviewing current market data to determine whether the property has declined in

value since the date of the original appraisal report. This policy applies regardless of whether the property was appraised as proposed or existing construction. The appraisal update must occur within four months prior to the date of the note and mortgage.

The original appraiser should complete the appraisal update; however, lenders may use substitute appraisers. When updates are completed by substitute appraisers, the substitute appraiser must review the original appraisal report and express an opinion about whether the original appraisers opinion of market value was reasonable on the date of the original appraisal report. The lender must note in the file why the original appraiser was not used.

The inspection and results of the appraisal update must be reported on the *Appraisal Update and/or Completion Report (Form 1004D)*.

- If the appraiser indicates on the Form 1004D that the property value has declined, then the lender must obtain a new appraisal for the property.
- If the appraiser indicates on the Form 1004D that the property value has *not* declined, then the lender may proceed with the loan in process without requiring any additional fieldwork.

When the effective date of the original appraisal report is more than 12 months from the date of the note and mortgage (with or without an appraisal update) a new appraisal report is required. Except for single-close construction-to-permanent financing loans, these policies apply to all appraisals including those that receive appraisal and value representation and warranty enforcement relief (see [B5-3.1-02, Conversion of Construction-to-Permanent Financing: Single-Closing Transactions](#)).

See [B4-1.3-12, Quality Assurance](#), for information concerning changes to the appraised value. See [B2-1.5-02, Loan Eligibility](#), for information regarding property valuation requirements for mortgage loans sold to Fannie Mae more than four months from the note date.

### **Desktop Appraisals**

When the effective date of the original desktop appraisal report is more than four months from the date of the note and mortgage, a new appraisal is required.

## **Multiple Appraisals of the Subject Property**

If the lender obtains more than one appraisal for a loan due to applicable law, regulation, lender policy, or otherwise, the lender must

- adhere to a policy of selecting the most reliable appraisal rather than the appraisal that states the highest value,
- document the reasons for relying on the appraisal, and
- submit the appraisal selected by the lender through the UCDP prior to delivery.

These requirements also apply if the lender considers an appraisal to be deficient (see [B4-1.3-12, Quality Assurance](#)).

## Use of an Appraisal for a Subsequent Transaction

Fannie Mae will allow the use of an origination appraisal for a subsequent transaction if the following requirements are met:

- The subsequent transaction may only be a limited cash-out refinance.
- The age of the appraisal report must be less than 12 months from the note date of the subsequent transaction. If the appraisal report is greater than four months from the date of the note and mortgage, then an appraisal update is required. See preceding section, Age of Appraisal and Appraisal Update Requirements, for requirements for completing an appraisal update.
- The lender must ensure that the property has not undergone any significant remodeling, renovation, or deterioration to the extent that the improvement or deterioration of the property would materially affect the market value of the subject property.
- The borrower and the lender/client must be the same on the original and subsequent transaction.

**Note:** The appraisal must comply with all other requirements in the Underwriting Property section of the *Selling Guide*.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2022-03</a>	April 06, 2022
<a href="#">Announcement SEL-2022-02</a>	March 02, 2022
<a href="#">Announcement SEL-2021-06</a>	July 07, 2021

## B4-1.2-05, Requirements for Verifying Completion and Postponed

## Improvements (03/01/2023)

### Introduction

This topic contains information on requirements for verifying completion of construction and repairs, and requirements for postponed improvements, including:

- [Overview](#)
- [Form 1004D and Completion Alternatives](#)
- [Verification of Completion: New or Proposed Construction](#)
- [Verification of Completion: Existing Construction](#)
- [Postponed Improvements](#)

### Overview

Generally, improvements, alterations, and repairs on the subject property must be complete when the mortgage is sold to Fannie Mae. Lenders must obtain evidence of completion and Fannie Mae allows for a variety of methods depending on the type of valuation method and condition (completion, alteration, or repair) that must be confirmed.

Additionally, in some circumstances, Fannie Mae allows a loan to be sold prior to improvements or repairs being completed if the lender complies with the requirements related to postponed improvements.

### Form 1004D and Completion Alternatives

#### **Form 1004D**

The *Appraisal Update and/or Completion Report* ([Form 1004D](#)) is used to update an appraisal or provide confirmation that the requirements or conditions in an appraisal report have been met (such as completion of construction or repairs).

The appraiser can complete the Completion Report section of Form 1004D based on an on-site visual inspection of the property. The appraiser may also complete the form based on alternative methods, such as virtual inspections, digital photos, site videos, or other technological solutions. All completion documentation must include one or more visually verifiable exhibits. A link to the digital exhibits from within the form is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property.

See [B4-1.2-04, Appraisal Age and Use Requirements](#), for certifications completed by substitute appraisers.

#### **Attestation Letters**

Fannie Mae also permits other completion alternative methods - attestation letters - to verify completion of construction, alteration, or repairs in lieu of Form 1004D.

**Borrower/builder attestation letter:** For new or proposed construction, a letter is permitted to confirm the property was completed and constructed in conformity with the plans and specifications, amendments, and change orders. The borrower/builder attestation letter must include (at a minimum) the following items:

- borrower name,
- property address or legal description if the address is not available,
- certification language that the property was constructed in conformity with the plans and specifications including any amendments or changes,
- signatures and dates by the borrower(s) and builder, and
- exterior and interior photos of the property (see [B4-1.2-01, Appraisal Report Forms and Exhibits](#)).

If a letter signed by both parties is not obtainable, then a Form 1004D completed by the appraiser is required.

**Borrower attestation letter:** A letter is permitted to confirm completion of certain alterations or repairs for existing construction. The letter must include (at a minimum) the following:

- borrower name;
- property address;
- certification language that the alteration or repair was satisfactorily completed;
- signatures and date of the borrower;
- visually verifiable exhibits of the completed work; and
- one of the following
  - signature of the qualified professional,
  - a professionally prepared report, or
  - paid invoices for the alterations or repairs.

When either of these attestation letter options is used, a link within the letter to any digital exhibits is acceptable but must be accessible by Fannie Mae for the life of the loan. These exhibits must be unaltered and able to be authenticated using metadata and the geocode for the subject property. The letter and all documentation must be retained in the loan file.

**Criteria for Use of Form 1004D and Completion Alternatives**

Use of Form 1004D and completion alternatives varies depending on the type of valuation method and condition (completion, alteration, inspection, or repair) that must be verified.

<b>Appraisals</b> (Any appraisal report form including Hybrid and Desktop)		
<b>Appraisal "Subject to" Condition</b>	<b>Performer</b>	<b>Documentation Options</b>
<b>New or proposed construction - completion per plans and specifications</b>	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower and builder	Borrower/builder attestation letter with supporting evidence
<b>Existing construction - repairs or alterations</b>	Appraiser	Form 1004D with site visit
	Appraiser	Form 1004D with virtual inspection
	Borrower	Borrower attestation letter with supporting evidence

<b>Existing construction - inspections requiring a professionally prepared report</b>	Qualified professional	Professionally prepared inspection report The lender must determine if repairs are required as a result of the inspection, verification per above requirements.
<b>Property Data Collection</b>		
<b>Condition</b>	<b>Performer</b>	<b>Documentation</b>
<b>Existing construction - repairs or alterations</b>	Borrower	Borrower attestation letter with supporting evidence
<b>Existing construction - inspection requiring a professionally prepared report</b>	Qualified professional	Professionally prepared inspection report The lender must determine if repairs are required as a result of the inspection, verification per above requirements.

**Note:** The alternative Form 1004D completion method and attestation letters are not permitted for verifying completion for HomeStyle Renovation transactions.

## Verification of Completion: New or Proposed Construction

When the property securing the mortgage is new or proposed construction, the appraisal must be based on either plans and specifications, an existing model home, or other information sufficient to identify the quality and character to accurately report the interior features of the proposed improvements.

Verification of completion of construction is required (in accordance with the requirements above) before sale of the loan to Fannie Mae, unless the lender complies with the postponed improvements policies described below.

## Verification of Completion: Existing Construction

Lenders must review the appraisal to ensure that the property does not have minor conditions or deferred maintenance items that affect the safety, soundness, or structural integrity of the subject property. See [B4-1.3-06, Property Condition and Quality of Construction of the Improvements](#), for information concerning property condition and quality of construction ratings.

The tables below provide requirements related to existing properties that have physical deficiencies, minor conditions, or deferred maintenance items that may or may not affect the safety, soundness, or structural integrity of the property.

✓	<p align="center"><b>Requirements for Existing Construction When There are Minor Conditions or Deferred Maintenance Items that Do Not Affect the Safety, Soundness, or Structural Integrity of the Property</b></p>
	<p>When the appraisal shows the existence of minor conditions or deferred maintenance that does not affect the safety, soundness, or structural integrity of the property, these items must be reflected in the appraiser's opinion of value and the appraisal report must be completed "as-is." Items meeting these criteria require the appraiser to report and comment on the effect these items may have on the subject property's value and marketability. The lender will then evaluate and determine if any additional course of action is required to comply with Fannie Mae's safety, soundness, and structural integrity requirements. Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass and are typically due to normal wear and tear. The lender is not required to ensure that the borrower has had these items repaired prior to sale of the loan to Fannie Mae when the appraisal is completed "as-is."</p>
	<p>If there are minor conditions or deferred maintenance items to be remedied or completed after closing, the lender may escrow for these items at its own discretion and still sell 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 safety, soundness, or structural integrity of the property.</p>
	<p>Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlines in <i>Servicing Guide</i> topic A4-1-02, Establishing Custodial Bank Accounts.</p>
✓	<p align="center"><b>Requirements for Existing Construction When There are Incomplete Items or Conditions that Affect the Safety, Soundness, or Structural Integrity of the Property</b></p>
	<p>When an appraisal is required and there are incomplete items, physical deficiencies, or items affecting the safety, soundness, or structural integrity of the improvements, the appraisal must be "subject to" completion of the specific repairs or alterations. This may include but is not limited to foundation settlement, water seepage, active roof leaks, worn roof shingles, inadequate electrical service or plumbing fixtures, etc.</p> <p>Incomplete items, physical deficiencies, or items affecting safety, soundness, or structural integrity may also be identified through the property data collection process.</p> <p>In all cases, the lender must verify completion before the loan is sold to Fannie Mae. See <i>Form 1004D and Completion Alternatives</i> above for the specific requirements.</p>

## Postponed Improvements

Fannie Mae allows the sale of a loan before construction or energy improvements are complete if certain

requirements are met.

The table below describes requirements related to properties that are new or proposed construction that are not complete when the loan is sold to Fannie Mae.

✓	<b>Requirements for New or Proposed Construction</b>
	<p>Loans may be delivered before postponed items are complete; however, the postponed improvements must be completed within 180 days of the date of the note. Acceptable postponed items include items that:</p> <ul style="list-style-type: none"> <li>• are part of the sales contract (third-party contracts are not permissible);</li> <li>• are postponed for a valid reason, such as inclement weather or a shortage of building materials; and</li> <li>• do not affect the ability to obtain an occupancy permit.</li> </ul>
	<p>Completion must be confirmed using Form 1004D or an acceptable completion alternative as described above. All documentation must be retained in the loan file.</p>
	<p>The cost of completing improvements must not represent more than 10% of the “as completed” appraised value of the property.</p>
	<p>Lenders must establish a completion escrow for the postponed improvements, by withholding from the purchase proceeds funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor or builder offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.</p>
	<p>Lenders must ensure the escrow account is a custodial account that satisfies Fannie Mae’s criteria for custodial accounts and depositories as outlined in <i>Servicing Guide</i> topic A4-1-02, Establishing Custodial Bank Accounts.</p>
	<p>Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.</p>
	<p>The completion escrow may not adversely affect the mortgage insurance or title insurance.</p>
	<p>After a satisfactory Form 1004D or completion alternative is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items.</p>



✓	<b>Requirements for New or Proposed Construction</b>
	Lenders must obtain a final title report, which must not show any outstanding mechanic's liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae's lien.

### Requirements for HomeStyle Energy Improvements on Existing Construction

The table below provides the postponed improvement requirements for a HomeStyle Energy loan. (These requirements are not applicable when energy improvements are included in HomeStyle Renovation loan).

✓	<b>Requirements for HomeStyle Energy Improvements on Existing Construction</b>
	Mortgages may be delivered before the energy-related improvements are complete; however, the postponed improvements must be completed within 180 days of the date of the mortgage note. Acceptable postponed items include items that will not prevent the issuance of an occupancy permit.
	A certification of completion must be obtained to verify the work was completed and must: <ul style="list-style-type: none"> <li>• be completed by the appraiser,</li> <li>• state that the improvements were completed in accordance with the requirements and conditions in the original appraisal report, and</li> <li>• be accompanied by photographs of the completed improvements.</li> </ul>
	Lenders must establish a completion escrow for the postponed energy-related improvements by withholding funds equal to 120% of the estimated cost for completing the improvements. However, if the contractor offers a guaranteed fixed-price contract for completion of the improvements, the funds in the completion escrow only need to equal the full amount of the contract price.
	Lender must ensure the escrow account is a custodial account that satisfies Fannie Mae's criteria for custodial accounts and depositories as outlined in <i>Servicing Guide</i> topic A4-1-02, Establishing Custodial Bank Accounts.
	Lenders and borrowers must execute an escrow agreement that states how the escrow account will be managed and how funds from the escrow account will be disbursed.
	The completion escrow may not adversely affect the mortgage insurance or title insurance.

✓	<b>Requirements for HomeStyle Energy Improvements on Existing Construction</b>
	Once a certificate of completion is obtained, the lender must release the final draw from the escrow account, which should include any funds in excess of the amount needed to pay for completion of the postponed items. Any funds remaining in the escrow account after the work is completed must be applied to reduce the unpaid principal balance of the mortgage loan. The value of sweat equity and “Do It Yourself” improvements are not reimbursable.
	Lenders must obtain a final title report, which must not show any outstanding mechanic’s liens, take any exceptions to the postponed improvements, or take any exceptions to the escrow agreement. If the final title report is issued before the completion of the improvements, lenders must obtain an endorsement to the title policy that ensures the priority of Fannie Mae’s lien.

See [B5-3.3-01, HomeStyle Energy for Improvements on Existing Properties](#), for other requirements related to loans with energy-related improvement features.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2019-01</a>	February 06, 2019

## Section B4-1.3, Appraisal Report Assessment

### B4-1.3-01, Review of the Appraisal Report (10/31/2017)

#### Introduction

This topic contains information on reviewing the appraisal report, including:

- [Overview](#)
- [Appraisal Report Analysis](#)

## Overview

Fannie Mae's appraisal report forms and the appraisal review requirements for one- to four-unit properties have been developed with the intent that the USPAP standards are followed and that Fannie Mae's policies are supportive of fair lending practices. This topic provides lender requirements related to the transaction details and the property and appraisal eligibility analysis.

## Appraisal Report Analysis

When an appraisal is obtained, the lender must analyze the

- current contract for sale for purchase money transactions,
- current offering or listing for sale for both purchase and refinance transactions when the home was listed for sale,
- comparable sales for both purchase and refinance transactions, and
- current ownership for the subject property (see [B4-1.1-02, Lender Responsibilities](#), for further information).

The lender is responsible for validating that

- the property meets Fannie Mae's eligibility criteria (see [B2-3-01, General Property Eligibility](#), for eligibility requirements); and
- the appraiser has provided an accurate and reliable opinion of value that reflects the market value, condition, and marketability of the subject property in compliance with Fannie Mae's *Selling Guide* requirements. (See [B4-1.3-12, Quality Assurance](#), for further information).

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.3-02, Subject and Contract Sections of the Appraisal Report

(04/15/2014)

## Introduction

This topic contains information on reviewing the Subject and Contract sections of the appraisal report form, including:

- [Subject Section](#)
- [Contract Section](#)

## Subject Section

The appraiser must identify the subject property by its complete property address and legal description. The appraiser must enter the physical property address, including the unit number for a condo, in a format that conforms to the United States Postal Service (USPS) address standards in Publication 28 – Postal Addressing Standards (pub28) for complete addresses. Address standards can be found at [usps.com](https://usps.com). The subject address must be populated consistently throughout the form.

When the legal description is lengthy, the appraiser may attach the full legal description as an addendum to the appraisal report. The appraiser must also identify the property rights to be appraised. (For eligibility requirements, see [B2-3-01, General Property Eligibility](#).)

Fannie Mae's appraisal report forms require the appraiser to research and identify whether the subject property is currently for sale or if it has been offered for sale in the 12 months prior to the effective date of the appraisal by selecting either the 'Yes' or the 'No' checkbox. If the answer is 'No,' the data source(s) used must be provided. If the answer is 'Yes,' the appraiser must report on each occurrence or listing and provide the following information:

- offering price(s),
- offering date(s), and
- data source(s) used.

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.

**Note:** For appraisals required to be UAD compliant, Days on Market (DOM) must be reported.

See [Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements](#), and the associated FAQ's, for additional information and examples regarding these topics.

## Contract Section

The lender must provide the appraiser with a copy of the complete, ratified contract. The appraiser must

indicate whether an analysis was or was not performed on the contract for sale. If an analysis was performed, the appraiser must provide the results of the analysis. If an analysis was not performed, the appraiser must provide an explanation why the analysis was not performed.

For appraisals required to be UAD compliant, the appraiser must also indicate the type of sale for the transaction. The appraiser may report any other relevant information in this field or elsewhere in the report regarding the sale type, including whether more than one sale type applies.

The appraiser must

- enter an amount in the Contract Price field if the Assignment Type is a purchase transaction. Contract price must be the same as the sales price for the subject property in the Sales Comparison Approach section;
- enter a contract date if the Assignment Type is a purchase transaction; and
- indicate if the property seller is the owner of record.

The appraiser must indicate if there is any financial assistance such as loan charges, sales concessions or gift, or down payment assistance to be paid by any party on behalf of the borrower, including any closing costs or other payments from the seller or other third party. If there is financial assistance, the appraiser must

- report the total dollar amount of the loan charges or concessions that will be paid (if the appraiser is not able to determine a dollar amount for all or part of the financial assistance, the number must reflect the total known dollar amount); and
- provide a description of the items being paid.

**Note:** Financial assistance or concessions paid by any party on behalf of the borrower includes both monetary and non-monetary items, including below-market-rate mortgage financing, gifts of personal property, and payment of property taxes or HOA dues for a period of time.

See [Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements](#), for additional information regarding the Contract Section, and [B4-1.3-09, Adjustments to Comparable Sales](#), for additional information regarding evaluating sales or financing concessions for comparables.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.3-03, Neighborhood Section of the Appraisal Report (06/03/2020)

## Introduction

This topic contains information on reviewing the Neighborhood section of the appraisal report form, including:

- [Overview](#)
- [Neighborhood Analysis](#)
- [Degree of Development and Growth Rate](#)
- [Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time](#)
- [Price Range and Predominant Price](#)
- [Over-Improvements](#)
- [Age Range and Predominant Age](#)
- [Present Land Use](#)

## Overview

Neighborhood characteristics and trends influence the value of one- to four-unit residences. Therefore, an analysis of the subject property's neighborhood is a key element in the appraisal process. As a reminder, Fannie Mae purchases mortgages secured by properties in all neighborhoods and in all areas, as long as the property is acceptable as security for the mortgage based on its value and marketability.

## Neighborhood Analysis

Fannie Mae's appraisal report forms and guidelines do not require the appraiser to rate or judge the neighborhood. Fannie Mae requires the appraiser to perform an objective neighborhood analysis by identifying neighborhood boundaries, neighborhood characteristics, and the factors that affect the value and marketability of properties in the neighborhood.

- **Neighborhood boundaries.** The appraiser should provide an outline of the neighborhood boundaries, which should be clearly delineated using 'North', 'South', 'East', and 'West'. These boundaries may include, but are not limited to streets, legally recognized neighborhood boundaries, waterways, or other natural boundaries that define the separation of one neighborhood from another. Appraisers should not reference a map or other addendum as the only example of the neighborhood boundaries.
- **Neighborhood characteristics.** These can be addressed by the types of structures (detached, attached) and architectural styles in the neighborhood (such as row or townhouse, colonial, ranch, or Victorian); current land use (such as single-family residential, commercial, or industrial); typical site size (such as 10000 sf, or 2.00 ac); or street patterns or design (such as one-way street, cul-de-sac, or court).
- **Factors that affect the value and marketability of properties in the neighborhood.** These can be addressed by such things as the proximity of the property to employment and amenities, employment stability, appeal to the market, changes in land use, access to public transportation, and adverse environmental influences.

The appraiser must fully consider all of the value-influencing characteristics in the neighborhood and arrive at an appropriate neighborhood description and opinion of value for the property, even if this requires more extensive research for particular property types or for properties in certain geographic locations.

An 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. The results of a neighborhood analysis enable the appraiser not only to identify the factors that influence the value of properties in the neighborhood, but also to define the area from which to select the market data needed to perform a sales comparison analysis.

In performing a neighborhood analysis, the appraiser

- collects pertinent data,
- conducts a visual inspection of the neighborhood to observe its physical characteristics and determine its boundaries, and
- identifies land uses and any signs that the land uses are changing.

Fannie Mae expects the appraiser and the lender's underwriter to be aware of the varying conditions that characterize different types of neighborhoods. Conditions that are typical in certain neighborhoods may not be present in other neighborhoods. This does not mean that the existence of certain types of conditions or characteristics are unacceptable; rather, it is an indication that they must be viewed in context with the nature of the neighborhood in which the security property is located. For example, some neighborhoods consist of a variety of property types that have different uses. It is not uncommon to find properties that have mixed-uses, such as residential properties that also have child-care facilities, doctor or dental offices, and other types of business or commercial uses. The presence of mixed-use properties or a variety of property types within a neighborhood should be viewed as a neighborhood characteristic that the appraiser considers when performing the neighborhood analysis and describing the neighborhood boundaries.

The appraiser must consider the influence of market forces, including but not limited to, economic, governmental, and environmental factors on property values in the neighborhood. Economic forces that must be considered include such things as the existence of vacant or boarded-up properties in the neighborhood, and the level of essential local support services. Examples of governmental forces that should be taken into consideration include the regulations, laws, and taxes that are imposed on properties. Environmental forces that must be considered include, among other things, the existence of a hazardous waste site on or near the property, and the proximity of a property to an airport. Certain other factors that are not appraisal factors, such as the racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a particular neighborhood, must not be considered in the valuation process.

The appraiser must determine, analyze, and consider factors in the valuation process based on their identification of all forces or factors that have the potential to influence the value of the property. The appraiser must report neighborhood conditions in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors in a neighborhood. If an appraiser can demonstrate by market evidence that a characteristic has an effect on the value or marketability of the properties in the neighborhood, they must consider it in the valuation process. The appraiser must not make unsupported assumptions or interject personal opinion or perceptions about market forces or other factors that may or may not affect the use and value of a property. For example, a property located in an older neighborhood can be as sound an investment as a property located in a new neighborhood.

## Degree of Development and Growth Rate

The degree of development of a neighborhood, which is referred to as "built-up" on the appraisal report forms, is the percentage of the available land in the neighborhood that has been improved. The degree of development

of a neighborhood may indicate whether a particular property is residential in nature.

When reviewing an appraisal on a property located in a rural or relatively undeveloped area, the lender should focus on the characteristics of the property, zoning, and the present land use to determine whether the property should be considered residential in nature. For example, if the typical one-unit building site in a particular area (based on the zoning, the highest and best use of the land, and the present land use) is two acres in size, the mortgage will be eligible for purchase or securitization regardless of the percentage of the total appraised value of the property that the site represents, as long as the appraiser demonstrates through the use of comparable sales that the property is a typical residential property for that particular neighborhood.

Because Fannie Mae does not purchase or securitize mortgages secured by agricultural-type properties, undeveloped land, or land-development-type properties, the lender must review the appraisal report for properties that have sites larger than those typical for residential properties in the neighborhood. Special attention must be given to the appraiser’s description of the neighborhood, zoning, the highest and best use determination, and the degree of comparability between the subject property and the comparable sales. If the subject property has a significantly larger site than the comparables used in the appraiser’s analysis, the subject property may not be a typical residential property for the neighborhood.

## Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time

The appraiser must report the primary indicators of market condition for properties in the subject neighborhood as of the effective date of the appraisal by noting the information in the table below.

<b>Trend of Property Values</b>	<b>Supply of Properties in the Subject Neighborhood</b>	<b>Marketing Time for Properties</b>
<ul style="list-style-type: none"> <li>• increasing,</li> <li>• stable, or</li> <li>• declining.</li> </ul>	<ul style="list-style-type: none"> <li>• shortage,</li> <li>• in-balance, or</li> <li>• over-supply.</li> </ul>	<ul style="list-style-type: none"> <li>• under three months,</li> <li>• three to six months, or</li> <li>• over six months.</li> </ul>

The appraiser’s analysis of a property must take into consideration all factors that affect value. Because Fannie Mae purchases mortgages in all markets, this is particularly important for neighborhoods that are experiencing significant fluctuations in property values including sub-markets for particular types of housing within the neighborhood. Therefore, lenders must confirm that the appraiser analyzes listings and contract sales as well as closed or settled sales, and uses the most recent and similar sales available as part of the sales comparison approach, with particular attention to sales or financing concessions in neighborhoods that are experiencing either declining property values, an over-supply of properties, or marketing times over six months. The appraiser must provide their conclusions for the reasons a neighborhood is experiencing declining property values, an over-supply of properties, or marketing times over six months.

When completing the One-Unit Housing Trends portion of the Neighborhood section of the appraisal report forms, the trends must be reflective of those properties deemed to be competitive to the property being appraised. If the neighborhood contains properties that are truly competitive (that is, market participants make no distinction between the properties), then all the properties within the neighborhood would be reflected in the One-Unit Housing Trends section. However, when a segmented or bifurcated market is present, the One-Unit Housing Trends portion must reflect those properties from the same segment of the market as the property being appraised. This ensures that the analysis being performed is based on competitive properties. For



example, if the neighborhood contains a mix of property types not considered competitive by market participants, then a segmented or bifurcated market is present. The appraiser should also provide commentary on the other segment(s) of the neighborhood when segmentation is present.

## Price Range and Predominant Price

The appraiser must indicate the price range and predominant price of properties in the subject neighborhood. The price range must reflect high and low prevailing prices for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type being appraised and the appraisal form being used. Isolated high and low extremes should be excluded from the range, which means that the predominant price will be that which is the most common or most frequently found in the neighborhood. The appraiser must state the predominant price as a single figure using whole numbers.

## Over-Improvements

An over-improvement is an improvement that is larger or costlier than what is typical for the neighborhood. For example, a 4,000 square foot home located in an area of homes where the typical home is 2,000 square feet may be considered an over-improvement. Furthermore, a home with an in ground pool in an area where pools are not typical may also be considered an over-improvement. The appraiser must comment on over-improvements and indicate their contributory value in the Sales Comparison Approach adjustment grid.

Improvements can represent an over-improvement for the neighborhood, but still be within the neighborhood price range, such as a property with an in-ground swimming pool, a large addition, or an oversized garage in a market that does not demand these kinds of improvements.

The fact that the property is an over-improvement does not necessarily make the property ineligible. However, lenders must review appraisals on properties with over-improvements that may not be acceptable to the typical purchaser to ensure that only the contributory value of the over-improvement is reflected in the appraisal analysis.

## Age Range and Predominant Age

The appraiser must indicate the age range and predominant age of properties in the subject neighborhood. The age range should reflect the oldest and newest ages for one-unit properties, two- to four-unit properties, condo units, or co-op units depending on the property type and the appraisal form being used. However, isolated high and low extremes should be excluded from the range. The predominant age is the one that is the most common or most frequently found in the neighborhood. The appraiser must state the predominant age as a single figure using whole numbers.

When the age of the subject property is significantly different than the predominant age range, the appraiser must explain why the age is outside the range and comment on the marketability of the property and the adjustments that were made in the Sales Comparison Approach adjustment grid to reflect that condition.

## Present Land Use

Fannie Mae’s appraisal report forms provide an area for the appraiser to report the relative percentages of the developed land in the neighborhood when discussing the present land use, rather than simply referring to the zoning classifications. The appraiser must separately report the percentage of developed one-unit sites and two-to four-unit sites. Undeveloped land must be reported in the “Other” field. In addition, if there is a significant amount of undeveloped land in the neighborhood, the appraiser must include comments to confirm that they adequately described the neighborhood. If the present land use in the neighborhood is not one of those listed on the appraisal report form, such as parkland, the appraiser also must indicate the type of land use and its related percentage. The total of the types of land uses must equal 100%.

Typically, dwellings best maintain their value when they are situated in neighborhoods that consist of other similar dwellings. However, some factors that are typical of a mixed-use neighborhood, such as easy access to employment centers and a high level of community activity, can actually enhance the market value of the property through increased buyer demand. Neighborhoods may frequently reflect a blend of residential and nonresidential land uses.

When different land uses and property types are present in a neighborhood, that fact should be considered a neighborhood characteristic that the appraiser needs to take into consideration when performing the neighborhood analysis and defining the neighborhood boundaries. To confirm that any positive or negative effects of the mixed land uses are reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same neighborhood whenever possible. If this is not possible, the appraiser may need to make neighborhood or location adjustments to the Sales Comparison Approach adjustment grid for any sales that are not subject to the same neighborhood characteristic.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2020-03</a>	June 03, 2020

## B4-1.3-04, Site Section of the Appraisal Report (06/05/2018)

### Introduction

This topic contains information on reviewing the Site section of the appraisal report form, including:

- [Overview](#)
- [Site Analysis](#)
- [Subject Property Zoning](#)

- [Highest and Best Use](#)
- [Adjoining Properties](#)
- [Site Utilities](#)
- [Off-Site Improvements](#)
- [Community-Owned or Privately Maintained Streets](#)
- [Special Flood Hazard Areas](#)

## Overview

The property site should be of a size, shape, and topography that is generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities (see *Property Requirements* in [B2-3-01, General Property Eligibility](#) for additional information). Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in the analysis and evaluation. The appraiser must comment if the site has adverse conditions or if there is market resistance to a property because the site is not compatible with the neighborhood or the requirements of the competitive market, and assess the effect, if any, on the value and marketability of the property.

## Site Analysis

The appraisal must include the actual size of the site and not a hypothetical portion of the site for the subject property. 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.

## Subject Property Zoning

The appraiser must report the specific zoning class in the appraisal, along with a general statement as to what the zoning permits, such as one- or two-unit, when they indicate a specific zoning such as R-1 or R-2. The appraisal must indicate whether the subject property presents

- a legal conforming use,
- a legal non-conforming (grandfathered) use,
- an illegal use under the zoning regulations, or
- that there is no local zoning.

Fannie Mae only purchases or securitizes mortgage loans on properties if the improvements constitute a legal conforming use of the land. However, Fannie Mae will purchase or securitize a mortgage for a property that constitutes a legal, nonconforming use of the land provided that the appraisal analysis reflects any adverse effect that the nonconforming use has on the value and the marketability of the property. This requirement applies to all property types.

Fannie Mae will not purchase or securitize a mortgage secured by a property that is subject to certain land-use regulations, such as coastal tideland or wetland laws, that create setback lines or other provisions that prevent the reconstruction or maintenance of the property improvements if they are damaged or destroyed. The intent

of these types of land-use regulations is to remove existing land uses and to stop land development, including the maintenance or construction of seawalls, within specific setback lines.

For information regarding accessory units that comply or do not comply with zoning, see [B4-1.3-05, Improvements Section of the Appraisal Report](#).

## Highest and Best Use

Fannie Mae will only purchase or securitize a mortgage that represents the highest and best use of the site as improved. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as the reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate. All of those criteria must be met if the improvements are to be considered as the highest and best use of a site.

The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

## Adjoining Properties

The appraiser must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

## Site Utilities

For mortgage loans to be eligible for purchase or securitization, the utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property. The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance.

If there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the value and marketability of the subject property (see [B4-1.4-08, Environmental Hazards Appraisal Requirements](#)).

## Off-Site Improvements

Off-site improvements include, but are not limited to, streets, alleys, sidewalks, curbs and gutters, and street lights. The subject property should front on a publicly dedicated and maintained street that meets community standards and is generally accepted by area residents. If a property fronts on a street that is not typical of those found in the community, the appraiser must address the effect of that location on the value and marketability of the subject property.

The presence of sidewalks, curbs and gutters, street lights, and alleys depends on local custom. If they are typical in the community, they should be present on the subject site. The appraiser must comment on any adverse conditions and address their effect on the value and marketability of the subject property.

## Community-Owned or Privately Maintained Streets

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share;
- default remedies in the event a party to the agreement or covenant fails to comply with their obligations; and
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

**Note:** If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still deliver the loan. However, the lender is required to indemnify Fannie Mae (as described in [A2-1-03, Indemnification for Losses](#)) against all losses incurred by Fannie Mae as a result of the physical condition of the street or in order to establish and/or retain access to the street.

## Special Flood Hazard Areas

Fannie Mae's appraisal report forms provide an area for the appraiser to indicate whether the property is located in a Special Flood Hazard Area that is identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps. The appraiser must also indicate the specific FEMA flood zone and the map number and its effective date. For additional information concerning Fannie Mae's policies on flood insurance, see [B7-3-06, Flood Insurance Requirements for All Property Types](#).

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.3-05, Improvements Section of the Appraisal Report (09/06/2023)

### Introduction

This topic contains information on reviewing the Improvements section of the appraisal report form, including:

- [Overview](#)
- [Conformity of Improvements to Neighborhood](#)
- [Unique Housing Types](#)
- [Actual and Effective Ages](#)
- [Remaining Economic Life](#)
- [Energy Efficient Improvements](#)
- [Layout and Floor Plans](#)
- [Gross Living Area](#)
- [Gross Building Area](#)
- [Accessory Dwelling Units](#)
- [Additions without Permits](#)
- [Properties with Outbuildings](#)

### Overview

The appraisal must provide a clear, detailed, and accurate description of the improvements. The description must be as specific as possible, commenting on such things as needed repairs, additional features, and modernization, and should provide supporting addenda, if necessary. If the subject property has an accessory dwelling unit, the appraisal should describe it.

### Conformity of Improvements to Neighborhood

The improvements should conform to the neighborhood in terms of age, type, design, and materials used for their construction. If there is market resistance to a property because its improvements are not compatible with the neighborhood or with the requirements of the competitive market because of adequacy of plumbing, heating, or electrical services; design; quality; size; condition; or any other reason directly related to market demand, the appraiser must address the impact to the value and marketability of the subject property. However, the lender should be aware that many older neighborhoods have favorable heterogeneity in architectural styles, land use, and age of housing. For example, older neighborhoods are especially likely to have been developed through custom building. This variety may be a positive marketing factor.

## Unique Housing Types

In the appraisal and appraisal report review processes, special consideration must be given to properties that represent unique housing for the subject neighborhood. Mortgages secured by unique or nontraditional types of housing, including, but not limited to, earth houses, geodesic domes, and log houses, are eligible for sale to Fannie Mae provided the appraiser has adequate information to develop a reliable opinion of market value. It is not necessary for one or more of the comparable sales to be of the same design and appeal as the property that is being appraised, although appraisal accuracy is enhanced by using comparable sales that are the most similar to the subject property. On a case-by-case basis, both the appraiser and the underwriter must independently determine whether there is sufficient information available to develop a reliable opinion of market value. This will depend on the extent of the differences between the special or unique property and the more traditional types of houses in the neighborhood and the number of such properties that have already been sold in the neighborhood.

A 3D printed home with a traditional design and constructed using conventional building materials is not considered a unique or nontraditional housing type. Lenders should follow the standard eligibility and comparable sales selection requirements for site-built housing. See [B4-1.3-08, Comparable Sales](#) and [B4-1.3-09, Adjustments to Comparable Sales](#), for additional information. To identify this construction method, the appraiser must enter "3D Printed Home" in the bottom free-form description field of the Sales Comparison Approach grid in the appraisal for the subject property and comparable sales (if applicable).

When appraising unique properties,

- if the appraiser cannot locate recent comparable sales of the same design and appeal, but is able to determine sound adjustments for the differences between the comparables that are available and the subject property and demonstrate the marketability of the property based on older comparable sales, comparable sales in competing neighborhoods, the existence of similar properties in the market area, and any other reliable market data, the property is acceptable as security for a mortgage deliverable to Fannie Mae;
- if the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so significantly different that they cannot establish a reliable opinion of market value, the property is not acceptable as security for a mortgage deliverable to Fannie Mae.

Fannie Mae does not specify minimum size or living area requirements for properties with the exception of manufactured housing (see [B4-1.4-01, Factory-Built Housing: Manufactured Housing](#)). There should be comparables of similar size to the subject property to support the general acceptability of a particular property type.

## Actual and Effective Ages

Fannie Mae does not place a restriction on the actual age of the dwelling. Older dwellings that meet Fannie Mae's general requirements are acceptable. Improvements for all properties must be of the quality and condition that will be acceptable to typical purchasers in the subject neighborhood.

The relationship between the actual and effective ages of the property is a good indication of its condition. A property that has been well-maintained generally will have an effective age somewhat lower than its actual age. On the other hand, a property that has an effective age higher than its actual age probably has not been well-

maintained or may have a particular physical problem. In such cases, the lender should pay particular attention to the condition of the subject property in its review of any appraisal report. When the appraiser makes adjustments for the “Year Built,” they must explain the adjustments that were made.

## Remaining Economic Life

Fannie Mae does not have any requirements related to the remaining economic life of the property. However, related property deficiencies must be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

Fannie Mae’s appraisal report forms are designed to meet the needs of several different user groups; consequently, the report forms address the remaining economic life for the property being appraised. However, appraisers are not required to report this information. If appraisers report this information, lenders do not need to consider remaining economic life because any related property deficiencies will be discussed in the sections of the appraisal report that address the improvements analysis and comments on the condition of the property.

## Energy Efficient Improvements

An energy-efficient property is one that uses resource-effective design, materials, building systems, and site orientation to conserve nonrenewable fuels.

Special energy-saving items must be recognized in the appraisal process and noted on the appraisal report form. For example, when completing the appraisal report (Form 1004), special energy-efficient items are to be addressed in the Improvements section in the Additional features field. The nature of these items and their contribution to value will vary throughout the country because of climactic conditions, differences in utility costs, and overall market reaction to the cost of the feature. Some examples of special energy-efficient features may include, but are not limited to, energy efficient ratings or certifications, programmable thermostats, solar photovoltaic systems, solar panels, low-e windows, insulated ducts, and tank-less water heaters.

Appraisers must compare energy-efficient features of the subject property to those of comparable properties in the Sales Comparison Approach adjustment grid. Appraisers may augment the Sales Comparison Approach in evaluating any impact (either positive or negative) to the value of energy efficiency improvements with either the income or cost approach; however, appraisers cannot adjust the value of the property

- on a mechanical dollar-for-dollar basis based on equipment and installation cost, or the discounted present value of expected cost savings of the equipment over the useful life of the equipment; or
- solely based on the cost or income approach. The appraiser must also analyze the market reaction to the energy efficient feature.

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar financing arrangement must be considered personal property and not be included in the appraised value of the property. See [B2-3-04, Special Property Eligibility Considerations](#), for additional eligibility requirements for properties with solar panels.

## Layout and Floor Plans



Dwellings with unusual layouts and floor plans generally have limited market appeal. A review of the room list and floor plan for the dwelling unit may indicate an unusual layout, such as bedrooms on a level with no bath, or a kitchen on a different level from the dining room. If the appraiser indicates that such inadequacies will result in market resistance to the subject property, they must make appropriate adjustments to reflect this in the overall analysis. However, if market acceptance can be demonstrated through the use of comparable sales with the same inadequacies, no adjustments are required.

## Gross Living Area

Appraisers must follow the Square Footage-Method for Calculating: ANSI® Z765-2021 ("ANSI standard") when measuring, calculating and reporting the gross living area and non-gross living areas (basement, additional structures, etc.) of the subject property for most property types. Appraisals requiring interior and exterior inspections must follow this standard; appraisals of this type performed without using this standard will not be acceptable.

**Note:** The ANSI standard cannot be used to measure apartment-style units in condo or co-op projects; however, it must be used for any non-apartment style dwellings including townhomes, rowhouses, and other detached single-family homes. When measuring apartment-style units in condo, or co-op projects; the appraiser should use interior perimeter measurements. The ANSI standard also does not apply to two- to four-unit properties.

The most common comparison for one-unit properties, including units in PUD, condo, or co-op projects, is above-grade gross living area and below-grade square footage. The appraiser must be consistent when reporting the finished above-grade gross living area, below-grade square footage, and room count. The need for consistency also applies from report to report. For example, when using the same transaction as a comparable sale in multiple reports, the room count and gross living area must not change.

When using sketching or 3D scanning software, the resulting output must also conform to the ANSI standard. See *Exhibits for Appraisals* in [B4-1.2-01, Appraisal Report Forms and Exhibits](#) for additional information on sketches and floor plans.

Only finished above-grade areas can be used in calculating and reporting of above-grade room count and square footage for the gross living area. Fannie Mae considers a level to be below-grade if any portion of it is below-grade, regardless of the quality of its finish or the window area of any room. Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count. Rooms that are not included in the above-grade room count may add substantially to the value of a property, particularly when the quality of the finish is high. For that reason, the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the Basement & Finished Rooms Below-Grade line in the Sales Comparison Approach adjustment grid.

Detached structures with finished square footage must be reported on a different line in the adjustment grid and not included as part of the subject's reported gross living area.

When the subject property has an area that does not meet the ANSI minimum ceiling height requirements, the additional square footage must be reported on an additional line in the adjustment grid and an appropriate market adjustment applied, if warranted. Additionally, the appraiser must provide an explanation in the report for how this area was handled in order to comply with the ANSI standard and also acknowledge any contribution of the additional square footage.

If the appraiser is unable to adhere to the ANSI standard they must enter "GXX001-" at the beginning of the Additional Features field of the appraisal and provide an explanation of why they were not able to comply. For example, the appraiser is performing an appraisal in a state that requires adherence to a different measuring standard. Such loans may still be eligible for purchase by Fannie Mae.

## Gross Building Area

The gross building area

- is the total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements;
- is the most common comparison for two- to four-unit properties;
- must be consistently developed for the subject property and all comparables used in the appraisal;
- must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, storage rooms; and
- cannot count exterior common areas, such as open stairways.

Fannie Mae will accept the use of other comparisons for two- to four-unit properties, such as the total above-grade and below-grade areas discussed in Gross Living Area, provided the appraiser

- explains the reasons they did not use a gross building area comparison, and
- clearly describes the comparisons that were made.

## Accessory Dwelling Units

An ADU is generally an additional living area independent of the primary dwelling that may have been added to, created within, or detached from the primary dwelling. The ADU must have basic requirements for living, sleeping, cooking, and bathroom facilities on the same parcel as the primary dwelling. See [B2-3-04, Special Property Eligibility Considerations](#), for complete ADU eligibility requirements.

When reporting the living area of an ADU, it should not be included with the Gross Living Area calculation of the primary dwelling. It should be reported and adjusted for on a separate line in the grid, unless the ADU is contained within or part of the primary dwelling with interior access and above grade. If a standalone structure does not meet the ADU minimum requirements, it should be treated as any other ancillary structure and included as a separate line item in the sales comparison approach then adjusted based on its contributory value to the subject property.

Whether a property is defined as a one-unit property with an ADU or a two- to four-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utility meter(s), a unique postal address, and whether the unit can be legally rented. The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal. When there is an ADU, the appraisal report must include a description of the ADU and analysis of any effect it has on the value or marketability of the subject property. The appraisal report must demonstrate that the improvements are acceptable for the market. An aged settled sale will qualify as a comparable, and an active listing or under contract sale will qualify as a supplemental exhibit to show marketability.

## Zoning for an ADU

If it is determined that the property contains an ADU that is not allowed under zoning (where an ADU is not allowed under any circumstance), the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The illegal use conforms to the subject neighborhood and to the market.
- The property is appraised based upon its current use.
- The appraisal report states that the improvements represent a use that does not comply with zoning (“illegal” use).
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least two comparable sales with the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use are acceptable if recent sales are not available. At a minimum, the appraisal report must include a total of three settled sales.

See [B4-1.3-04, Site Section of the Appraisal Report](#), for subject property zoning information.

## Additions without Permits

If the appraiser identifies an addition(s) that does not have the required permit, the appraiser must comment on the quality and appearance of the work and its impact, if any, on the market value of the subject property.

## Properties with Outbuildings

A lender must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

Type of Outbuilding	Acceptability
Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.	The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal outbuilding.	The property is acceptable provided the appraiser’s analysis reflects little or no contributory value for it.

Type of Outbuilding	Acceptability
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

## Recent Related Announcements

The table below provides references to the Announcements that have been issued that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-08</a>	September 06, 2023
<a href="#">Announcement SEL-2022-03</a>	April 06, 2022
<a href="#">Announcement SEL-2021-11</a>	December 15, 2021
<a href="#">Announcement SEL-2020-05</a>	September 02, 2020
<a href="#">Announcement SEL-2020-04</a>	August 05, 2020

## B4-1.3-06, Property Condition and Quality of Construction of the Improvements (03/01/2023)

### Introduction

This topic contains information on property condition and quality of construction, including:

- [Appraiser Selection of Condition, Quality, and other Characteristic Ratings](#)
- [Property Condition](#)
- [Property Condition Ratings](#)
- [Identifying Property Condition](#)

- [Definitions of Not Updated, Updated, and Remodeled](#)
- [Appraisals Completed “As Is”](#)
- [Quality of Construction Rating](#)
- [Identifying Quality of Construction](#)
- [Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property](#)
- [Infestation, Dampness, or Settlement](#)

## Appraiser Selection of Condition, Quality, and other Characteristic Ratings

The condition and quality ratings must be based on a holistic view of the property and any improvements. When selecting the condition and quality ratings, an appraiser must

- consider all improvements to determine an overall condition and quality rating. The appraiser should select the rating that best reflects the property as a whole and in its entirety.
- describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits. The rating should not be selected on a relative basis, meaning it is not selected on how the property relates or compares to other properties in the neighborhood. Additionally, the condition and quality ratings for comparable properties must be made on an absolute basis (again, each comparative property on its own merits), not on a relative basis, and reflect the property as of the date of sale of that comparable property.

**Note:** These requirements also apply to all other ratings or descriptions, including the View and Location.

When an appraiser selects a rating and/or description of the subject property for a sales transaction, the selected rating and/or description must remain the same when reflecting that specific transaction. For example, if a C4 rating is selected for the sale of the subject property, then that property remains a C4 when using that specific sale as a comparable in future reports. The same expectation holds true for ratings and descriptions of comparable sales. When a comparable is used in a subsequent appraisal, the ratings and descriptions of that property should not change from one appraisal to the next when it reflects the same sale transaction.

**Note:** Properties can have the same rating or description and still require an adjustment. It should be noted that this does not only apply to condition and quality ratings and can apply to other ratings or descriptions as well. For example, all water views may not be equal. In this instance, an adjustment should be made and explained in the Additional Comments section of the form or in an addendum.

## Property Condition

Lenders must take the necessary steps to confirm that a property meets Fannie Mae’s condition requirements as outlined in this topic.

The table below provides the requirements for property condition.

✓	Requirements
	The appraisal report must express an opinion about the condition of the improvements based on the factual data of the improvements analysis.
	Appraisals based on interior and exterior inspections must include complete visual inspections of the accessible areas of the property. <b>Note:</b> Appraisers are not responsible for hidden or unapparent conditions.
	Appraisal reports must reflect adverse conditions that were apparent during the inspection or discovered while performing research, such as, but not limited to, needed repairs, deterioration, or the presence of hazardous wastes, toxic substances, or adverse environmental conditions.
	Detrimental conditions of the improvements must be reported in the appraisal even if the conditions are typical for competing properties.
	The appraiser must consider and describe the overall condition and quality and condition of the property improvements. (See <i>Identifying Property Condition; Definitions of Not Updated, Updated, and Remodeled; and Identifying Quality of Construction</i> in this topic for details.)
	The appraiser must identify <ul style="list-style-type: none"> <li>• items that require immediate repair; and</li> <li>• items where maintenance may have been deferred, which may or may not require immediate repair.</li> </ul>
	The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

## Property Condition Ratings

For appraisals required to be completed with the UAD, the appraiser must assign one of the following standardized condition ratings in the table below when identifying the condition of the improvements for the subject property and comparable sales.

Rating	Description
C1	<p>The improvements have been very recently constructed and have not previously been occupied. The entire structure and all components are new and the dwelling features no physical depreciation.</p> <p><b>Note:</b> <i>Newly constructed improvements that feature recycled materials and/or components can be considered new dwellings provided that the dwelling is placed on a 100 percent new foundation and the recycled materials and the recycled components have been rehabilitated/re-manufactured into like-new condition. Improvements that have not been previously occupied are not considered “new” if they have any significant physical depreciation (that is, newly constructed dwellings that have been vacant for an extended period of time without adequate maintenance or upkeep).</i></p>
C2	<p>The improvements feature no deferred maintenance, little or no physical depreciation, and require no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated and/or replaced with components that meet current standards. Dwellings in this category either are almost new or have been recently completely renovated and are similar in condition to new construction.</p> <p><b>Note:</b> <i>The improvements represent a relatively new property that is well-maintained with no deferred maintenance and little or no physical depreciation, or an older property that has been recently completely renovated.</i></p>
C3	<p>The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components, but not every major building component, may be updated or recently rehabilitated. The structure has been well-maintained.</p> <p><b>Note:</b> <i>The improvement is in its first-cycle of replacing short-lived building components (appliances, floor coverings, HVAC, etc.) and is being well- maintained. Its estimated effective age is less than its actual age. It also may reflect a property in which the majority of short-lived building components have been replaced but not to the level of a complete renovation.</i></p>

Rating	Description
C4	<p>The improvements feature some minor deferred maintenance and physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major building components have been adequately maintained and are functionally adequate.</p> <p><b>Note:</b> <i>The estimated effective age may be close to or equal to its actual age. It reflects a property in which some of the short-lived building components have been replaced, and some short-lived building components are at or near the end of their physical life expectancy; however, they still function adequately. Most minor repairs have been addressed on an ongoing basis resulting in an adequately maintained property.</i></p>
C5	<p>The improvements feature obvious deferred maintenance and are in need of some significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to condition, but the dwelling remains useable and functional as a residence.</p> <p><b>Note:</b> <i>Some significant repairs are needed to the improvements due to the lack of adequate maintenance. It reflects a property in which many of its short-lived building components are at the end of or have exceeded their physical life expectancy, but remain functional.</i></p>
C6	<p>The improvements have substantial damage or deferred maintenance with deficiencies or defects that are severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components.</p> <p><b>Note:</b> <i>Substantial repairs are needed to the improvements due to the lack of adequate maintenance or property damage. It reflects a property with conditions severe enough to affect the safety, soundness, or structural integrity of the improvements.</i></p>

## Identifying Property Condition

As previously noted, the condition rating selected for the property must reflect a holistic view of the condition of the property improvements. It would be inappropriate to select either a lower or higher overall rating on the basis of one or two minor inferior or superior areas of the property improvements. However, the C6 rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a C6, the whole dwelling must be rated a C6.

Properties with a condition rating of C6 are not eligible for sale to Fannie Mae. Any deficiencies impacting the safety, soundness, or structural integrity of the property must be repaired with a resulting minimum condition rating of C5 prior to delivery of the loan. See *Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property* in this topic for information related to completing appraisals on properties with



safety, soundness, or structural integrity deficiencies.

## Definitions of Not Updated, Updated, and Remodeled

For appraisals required to be completed using the UAD, as a subset of identifying the condition of the subject property, the appraiser must also identify the level of updating, if any, that the subject property has received by utilizing the definitions in the table below.

Level of Updating	Description
Not Updated	<p>Little or no updating or modernization. This description includes, but is not limited to, new homes.</p> <p>Residential properties of fifteen years of age or less often reflect an original condition with no updating, if no major components have been replaced or updated. Those over fifteen years of age are also considered not updated if the appliances, fixtures, and finishes are predominantly dated. An area that is 'Not Updated' may still be well-maintained and fully functional, and this rating does not necessarily imply deferred maintenance or physical/functional deterioration.</p>
Updated	<p>The area of the home has been modified to meet current market expectations. These modifications are limited in terms of both scope and cost.</p> <p>An updated area of the home should have an improved look and feel, or functional utility. Changes that constitute updates include refurbishment and/or replacing components to meet existing market expectations. Updates do <i>not</i> include significant alterations to the existing structure.</p>
Remodeled	<p>Significant finish and/or structural changes have been made that increase utility and appeal through complete replacement and/or expansion.</p> <p>A remodeled area reflects fundamental changes that include multiple alterations. These alterations may include some or all of the following: replacement of a major component (cabinet(s), bathtub, or bathroom tile), relocation of plumbing/gas fixtures/appliances, significant structural alterations (relocating walls, and/or the addition of square footage). This would include a complete gutting and rebuild.</p>

## Appraisals Completed "As Is"

Fannie Mae permits appraisals to be based on the "as is" condition of the property provided existing conditions are minor and do not affect the safety, 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 are typically due to normal wear and tear from the aging process

and the occupancy of the property. While such conditions generally do not rise to the level of a required repair, they must be reported. Examples of minor conditions and deferred maintenance include worn floor finishes or carpet, minor plumbing leaks, holes in window screens, missing handrails, or cracked window glass.

Properties with condition ratings C1, C2, C3, C4, and C5 as previously defined are eligible in “as is” condition. Properties with the initial Condition Rating C6 indicate one or more deficiencies that impact the safety, soundness, or structural integrity of the property. Therefore, the appraisal must be completed “subject to” completion of the deficient item(s) with a minimum resulting condition rating of C5.

See *Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property* in this topic for additional details when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

## Quality of Construction Rating

For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

Rating	Description
Q1	Dwellings with this quality rating are usually unique structures that are individually designed by an architect for a specified user. Such residences typically are constructed from detailed architectural plans and specifications and feature an exceptionally high level of workmanship and exceptionally high-grade materials throughout the interior and exterior of the structure. The design features exceptionally high-quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The workmanship, materials, and finishes throughout the dwelling are of exceptionally high quality.
Q2	Dwellings with this quality rating are often custom designed for construction on an individual property owner’s site. However, dwellings in this quality grade are also found in high-quality tract developments featuring residences constructed from individual plans or from highly modified or upgraded plans. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The workmanship, materials, and finishes throughout the dwelling are generally of high or very high quality.
Q3	Dwellings with this quality rating are residences of higher quality built from individual or readily available designer plans in above-standard residential tract developments or on an individual property owner’s site. The design includes significant exterior ornamentation and interiors that are well finished. The workmanship exceeds acceptable standards and many materials and finishes throughout the dwelling have been upgraded from “stock” standards.

Rating	Description
Q4	Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized and the design includes adequate fenestration and some exterior ornamentation and interior refinements. Materials, workmanship, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with this quality rating feature economy of construction and basic functionality as main considerations. Such dwellings feature a plain design using readily available or basic floor plans featuring minimal fenestration and basic finishes with minimal exterior ornamentation and limited interior detail. These dwellings meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements and upgrades.
Q6	Dwellings with this quality rating are of basic quality and lower cost; some may not be suitable for year-round occupancy. Such dwellings are often built with simple plans or without plans, often utilizing the lowest quality building materials. Such dwellings are often built or expanded by persons who are professionally unskilled or possess only minimal construction skills. Electrical, plumbing, and other mechanical systems and equipment may be minimal or nonexistent. Older dwellings may feature one or more substandard or nonconforming additions to the original structure.

## Identifying Quality of Construction

The same approach used in identifying the condition of the property is also applicable to identifying the quality of construction. The selected rating must reflect a holistic view of the quality of construction. However, the Q6 Rating is an exception because it indicates that the property is impacted by one or more deficiencies that negatively affect the safety, soundness, or structural integrity of the property. As a result, if any portion of the dwelling is rated a Q6, the whole dwelling must be rated a Q6.

Properties with a quality of construction rating of Q6 are eligible for sale to Fannie Mae provided any items in relation to the quality of construction that impact the safety, soundness, or structural integrity of the property are repaired prior to the delivery of the loan. See *Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property* in this topic for requirements when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

## Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property

The appraisal report must identify and describe physical deficiencies that could affect a property's safety, soundness, or structural integrity. If the appraiser has identified any of these deficiencies, the property must be

appraised "subject to" completion of the specific repairs or alterations. In these instances, the property condition and quality ratings must reflect the condition and quality of the property based on the hypothetical condition that the repairs or alterations have been completed.

If the appraiser is not qualified to evaluate the alterations or repairs, the appraisal must note the deficiencies and be completed "subject to" a satisfactory inspection by a qualified professional. The lender must decide if the inspection(s) is required and whether the property meets eligibility requirements. If the property does not meet eligibility requirements, the lender must provide satisfactory evidence that the condition has been corrected or repaired prior to loan delivery. In this case, the appraiser is not required to review the professionally prepared report, re-inspect the property, or provide a Form 1004D. The lender must document the decision and rationale in the loan file. See [B4-1.4-08, Environmental Hazards Appraisal Requirements](#), for properties affected by environmental hazards.

## Infestation, Dampness, or Settlement

If the appraisal indicates evidence of infestation (such as, wood-boring insects), dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property. The lender must either provide satisfactory evidence that the condition was corrected or submit a professionally prepared report indicating, based on an inspection of the property, that the condition does not pose any threat of structural damage to the improvements. The appraisal should be made "subject to" repairs or alternations, or "subject to" an inspection by a qualified professional.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023

## B4-1.3-07, Sales Comparison Approach Section of the Appraisal Report (04/15/2014)

### Introduction

This topic contains information on reviewing the Sales Comparison Approach section of the appraisal report form, including:

- [Overview](#)
- [Data and Verification Sources of Comparable Sales](#)
- [Prior Sales History of the Subject and Comparable Sales](#)

## Overview

The sales comparison approach to value is an analysis of comparable sales, contract sales, and listings of properties that are the most comparable to the subject property.

The appraiser's analysis of a property must take into consideration all factors that have an effect on value. The appraiser must analyze all closed sales, contract sales, and offerings or listings of properties that are the most comparable to the subject property in order to identify any significant differences or elements of comparison that could affect their opinion of value for the subject property as of the effective date of the appraisal report. This is particularly important in changing (increasing or declining values) markets. Analyzing closed sales, contract sales, and offerings or listings is an important analysis in any market and will result in more accurate reporting on market conditions, including trends that indicate that sale prices for contract sales and asking prices for recent offerings or listings have changed. (Also see [B4-1.3-03, Neighborhood Section of the Appraisal Report](#), for information regarding Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time.)

## Data and Verification Sources of Comparable Sales

Data and verification source(s) for each comparable sale must be reported on the appraisal report form. Examples of data sources include, but are not limited to, a multiple listing service, deed records, tax records, real estate agents, builders, appraisers, appraiser's files, and other third party sources and vendors. The appraiser must state the specific data source (such as tax records or deed records), and refrain from using broad categories, such as "public records." Data source(s) must be reliable sources for the area where the subject property is located.

Examples of verification sources include, but are not limited to, the buyer, seller, listing agent, selling agent, and closing documents in certain situations. Regardless of the source(s) used, there must be sufficient data to understand the conditions of sale, existence of financing concessions, physical characteristics of the subject property, and whether it was an arms-length transaction.

It is acceptable to obtain comparable sales data from parties that have a financial interest in either the sale or financing of the subject property; however, the appraiser must verify the data with a party that does not have a financial interest in the subject transaction. For example, if the real estate agent of the subject property has provided comparable sales data, that information must be verified through another disinterested source.

## Prior Sales History of the Subject and Comparable Sales

Fannie Mae's appraisal report forms require the appraiser to report the three year subject property and twelve month comparable sales history.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.3-08, Comparable Sales (03/02/2022)

### Introduction

This topic contains information on selection of comparable sales, including:

- [Selection of Comparable Sales](#)
- [Minimum Number of Comparable Sales](#)
- [Age of the Comparable Sales](#)
- [Additional Requirements for New \(or Recently Converted\) Condos, Subdivisions, or PUDS](#)
- [Rural Properties](#)
- [Use of Foreclosures and Short Sales](#)

### Selection of Comparable Sales

The appraiser is responsible for determining which comparables are the best and most appropriate for the assignment. Fannie Mae expects the appraiser to account for all factors that affect value when completing the analysis. Comparable sales should have similar physical and legal characteristics when compared to the subject property. These characteristics include, but are not limited to, site, room count, gross living area, style, and condition. This does not mean that the comparable must be identical to the subject property, but it should be competitive and appeal to the same market participants that would also consider purchasing the subject property. Comparables that are significantly different from the subject property may be acceptable; however, the appraiser must describe the differences, consider these factors in the market value, and provide an explanation justifying the use of the comparable(s).

Comparable sales from within the same neighborhood (including subdivision or project) as the subject property should be used when possible, and must be used in certain instances (see below). Sale activity from within the neighborhood is the best indicator of value as sales prices of comparable properties from the same location should reflect the same positive and negative location characteristics.

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. The appraiser must also provide an explanation as to why they used the specific comparable sales in the appraisal report and include a discussion of how a competing neighborhood is comparable to the subject neighborhood.

If 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 might need to use properties that are not truly comparable to the subject property. In some situations, sales of properties that are not truly comparable may simply be the best available and the most appropriate for the appraiser's analysis. The use of such sales is acceptable as long as the appraiser adequately documents the analysis and explains why these sales were used. (For additional information, see [B4-1.3-03, Neighborhood Section of the Appraisal Report](#).)

When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms of miles and include the applicable directional indicator (for example, "1.75 miles NW"). The distance between the subject property and each comparable property is to be measured using a straight line between the properties.

## Minimum Number of Comparable Sales

A minimum of three closed comparables must be reported in the sales comparison approach. Additional comparable sales may be reported to support the opinion of market value provided by the appraiser. The subject property can be used as a fourth comparable sale or as supporting data if it was previously closed. Contract offerings and current listings can be used as supporting data, if appropriate. See *Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs* below for exceptions to this policy.

In no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (improvements only). While these transactions cannot be used to meet the required minimum three closed comparables, these transactions, which are often completed as part of a construction-to-permanent loan transaction, may be included as additional support with appropriate commentary.

## Age of the Comparable Sales

Comparable sales that have closed within the last 12 months should be used in the appraisal; however, the best and most appropriate comparable sales may not always be the most recent sales. For example, it may be appropriate for the appraiser to use a nine month old sale with a time adjustment rather than a one month old sale that requires multiple adjustments. An older sale may be more appropriate in situations when market conditions have impacted the availability of recent sales as long as the appraisal reflects the changing market conditions.

Additionally, older comparable sales that are the best indicator of value for the subject property can be used if appropriate. For example, if the subject property is located in a rural area that has minimal sales activity, the appraiser may not be able to locate 3 truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales as long as they explain why they are being used.

## Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDS

If the subject property is located in a new (or recently converted) condo project, subdivision, or PUD, it must be compared to other properties in the same market area and to properties within the subject condo project,

subdivision, or PUD. This comparison should help demonstrate market acceptance of new developments and the properties within them. Generally, a subdivision is considered new when there are limited or no resales or the builder or developer is involved in the marketing or sale of the properties. See [B4-2.1-01, General Information on Project Standards](#) and [B4-2.3-01, Eligibility Requirements for Units in PUD Projects](#) for the definition of a new condo project or PUD.

At a minimum, the appraisal report for these properties must include the following:

- At least one settled comparable sale from the subject condo project, subdivision, or PUD. (A resale is preferable if it is verifiable and does not involve the subject builder or developer).
- At least one settled comparable sale from outside the subject condo project, subdivision, or PUD.
- A third settled comparable sale can be from inside or outside of the subject condo project, subdivision, or PUD. Settled comparable sales or resales from within the subject condo project, subdivision, or PUD are preferable to settled sales from outside the condo project, subdivision, or PUD provided the builder or developer of the subject property is not involved in those transactions.
- In the event there are no settled comparable sales inside a new condo project, subdivision, or PUD because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project, subdivision, or PUD in lieu of one settled sale. The appraiser must also use at least three settled comparable sales from projects, subdivisions, or PUDs outside of the subject project, subdivision, or PUD.

If the subject property is part of a newly built or recently converted condo project, subdivision, or PUD that has 2-20 units and there are no settled or pending sales, the appraiser may use comparable sales from a competing project, subdivision, or PUD. The requirements in the following table apply.

✓	<b>The appraisal report must...</b>
	Use competing projects, subdivisions, or PUDs of a similar size and type.
	Explain why the comparable sales were chosen and demonstrate market acceptance.
	Describe how the condo project, subdivision, or PUD chosen compares to the subject property.

**Note:** If the subject property is not the first unit under contract in the condo project, subdivision, or PUD, the appraiser must include one under contract sale from the subject's project, subdivision, or PUD as a supplemental exhibit.

To meet the requirement that the appraiser utilize one comparable sale from inside the subject project, subdivision, or PUD, the appraiser may need to rely solely on the builder of the property they are appraising, as this data may not yet be available through typical data sources (for example, 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 settlement statement from the builder's file.

When providing builder sales from competing projects that are not presently available through traditional data sources, the appraiser must verify the sale from the applicable settlement statement and indicate on the appraisal report that the settlement statement was the document utilized for verification. Additionally, the



appraisal must include discussion and analysis of sales concessions and upgrades for the subject property relative to concessions and upgrades for each builder sale. (For special appraisal considerations regarding condo projects, see [B4-1.4-03, Condo Appraisal Requirements](#).)

## Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use their knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

## Use of Foreclosures and Short Sales

It is acceptable to use foreclosures and short sales as comparables if the appraiser believes they are the best and most appropriate sales available. The appraiser must address in the appraisal report the prevalence of such sales in the subject’s neighborhood and the impact, if any, of such sales. The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it. The appraiser cannot assume it is equal to the subject property. For example, a foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated. For appraisals that are required to be UAD compliant, the appraiser must identify the financing sale type as REO sale or Short sale, as appropriate. (For specific information regarding comparable sale adjustments, see [B4-1.3-09, Adjustments to Comparable Sales](#), and for information regarding financing types, see *Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements*.)

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2022-02</a>	March 02, 2022
<a href="#">Announcement SEL-2021-11</a>	December 15, 2021

## B4-1.3-09, Adjustments to Comparable Sales (01/31/2017)

### Introduction

This topic contains details on selected adjustments to the comparable sales, including:

- [Analysis of Adjustments](#)
- [Sales or Financing Concessions](#)
- [Date of Sale and Time Adjustments](#)
- [Appraiser's Comments and Indicated Value in the Sales Comparison Approach](#)

### Analysis of Adjustments

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however this is rarely the case as typically no two properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market based adjustments) to the difference in the properties. For example, it would be inappropriate for an appraiser to provide a \$20 per square foot adjustment for the difference in the gross living area based on a rule-of-thumb when market analysis indicates the adjustment should be \$100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to arbitrary limits on the size of the adjustment.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported. (For further information regarding comparable selection, see [B4-1.3-08, Comparable Sales](#).)

When there are no truly comparable sales for a particular property because of the uniqueness of the property or other conditions, the appraiser must select sales that represent the best indicators of value for the subject property and make adjustments to reflect the actions of typical purchasers in that market.

### Sales or Financing Concessions

Comparable sales that include sales or financing concessions must be adjusted to reflect the impact, if any, on the sales price of the comparables based on the market at the time of sale. For information related to sales or financing concessions for the subject transaction, see [B3-4.1-02, Interested Party Contributions \(IPCs\)](#).

Examples of sales or financing concessions include:

- interest rate buydowns or other below-market rate financing;
- loan discount points;

- loan origination fees;
- closing costs customarily paid by the buyer;
- payment of condo, co-op, or PUD fees or assessment charges;
- refunds of (or credit for) the borrower's expenses;
- absorption of monthly payments;
- assignment of rent payments; and
- inclusion of non-realty items in the transaction.

The dollar amount of sales or financing concessions paid by the seller must be reported for the comparable sales if the information is reasonably available (see UAD [Appendix D: Field-Specific Standardization Requirements](#), for data entry instructions). Sales or financing data should be obtained from parties associated with the comparable transaction, such as the broker, buyer or seller, or a reliable data source. If information is not available because of legal restrictions or other disclosure-related problems, the appraiser must explain why the information is not available. If the appraisal report form does not provide enough space to discuss this information, the appraiser must make an adjustment for the concessions on the form and include an explanation in an addendum to the appraisal report.

The amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. The need to make negative dollar adjustments for sales or financing concessions and the amount of the adjustments to the comparable sales is not based on how typical the concessions might be for a segment of the market area. Large sales or financing 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.

Fannie Mae recognizes that the effect of sales or financing concessions on sales prices can vary with the amount of the concessions and differences in various markets. Adjustments must reflect the difference between what the comparables actually sold for with the sales or financing 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. If the appraiser's analysis determines that the market's reaction is the full amount of the financing concession, a dollar-for-dollar adjustment is acceptable.

Positive adjustments for sales or financing concessions are not acceptable. For example, if local common practice or law results in virtually all of the property sellers in the market area paying a 1% loan origination fee for the purchaser, and a property seller in that market did not pay any loan fees or concessions for the purchaser, the sale would be considered as a cash equivalent sale in that market. The appraiser must recognize comparable sales that sold for all cash or with cash equivalent financing and use them as comparable sales if they are the best indicators of value for the subject property. Such sales also can be useful to the appraiser in determining those costs that are normally paid by sellers as the result of common practice or law in the market area.

## Date of Sale and Time Adjustments

The date of sale and the time adjustment (market conditions) are critical elements in determining an accurate value because the appraisal is based on a specific date in time (effective date of appraisal). The comparable

sales being considered must be analyzed by the appraiser to determine if there have been any changes in market conditions from the time the comparable went under contract to the effective date of the appraisal. This analysis will determine whether a time adjustment is warranted. Adjustments may be either positive or negative depending on the market changes over the time period analyzed. Time adjustments should be supported by other comparables (such as sales, contracts) whenever possible; however, in all instances the appraiser must provide an explanation for the time adjustment in the appraisal report.

When completing Fannie Mae's appraisal report forms, the appraiser should provide the date of the sales contract and the settlement or closing date. Only the month and year need to be reported. For example, appraisers may use "s04/10" or "c02/10" where "s" reflects the settlement or closing date and "c" reflects the contract date. If the exact date is necessary to understand the adjustments, it must be explained elsewhere in the report or in an addendum. If the contract date is unavailable to the appraiser in the normal course of business, the appraiser must enter the abbreviation "Unk" for unknown, in place of the contract date.

## Appraiser's Comments and Indicated Value in the Sales Comparison Approach

The appraiser must provide appropriate comment(s) reflecting the logic and reasoning for the adjustments provided, especially for the characteristics reported on the appraisal report form between the Sales or Financing Concessions and the Condition line items. A statement only recognizing that an adjustment has been made is not acceptable. When appropriate, the appraiser's analysis should also include narrative comments about a current contract, offering, or listing for the subject or comparable sales, current ownership, and recent prior sales or transfers. Additionally, the appraiser's comments must reflect his or her reconciliation of the adjusted (or indicated) values for the comparable sales and identify why the sale(s) were given the most weight in arriving at the indicated value for the subject property. It should be noted that the indicated value in the Sales Comparison Approach must be within the range of the adjusted sales price of the comparables that are reported in the appraisal report form.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.3-10, Cost and Income Approach to Value (04/15/2014)

### Introduction

This topic contains information on reviewing the cost approach and the income approach, including:

- [Cost Approach to Value](#)
- [Income Approach to Value](#)

## Cost Approach to Value

Fannie Mae does not require the cost approach to value except for the valuation of manufactured homes. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. For example, when appraising proposed or newly constructed properties, if the appraiser believes the cost approach is necessary for credible assignment results, then the cost approach must be provided. Appraisals that rely solely on the cost approach as an indicator of market value are not acceptable.

The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property being appraised. This approach, then, measures value as a cost of production. It may be appropriate to use the cost approach when appraising new or proposed construction, property that is undergoing renovation, unique property, or property that features functional depreciation, to support the sales comparison approach analysis. The reliability of the cost approach depends on valid reproduction cost estimates, proper depreciation estimates, and accurate site values.

If the appraiser has completed the cost approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report. For example, if the neighborhood or site description reveals that the property backs up to a shopping center, lenders should expect to see an amount indicated for external depreciation in the cost approach. Or, if the improvement analysis indicates that it is necessary to go through one bedroom to get to another bedroom, lenders should expect to see an amount indicated for functional depreciation.

## Income Approach to Value

The income approach to value is based on the assumption that market value is related to the market rent or income that a property can be expected to earn. The income approach to value is required in the valuation of two-unit to four-unit properties and may be appropriate in neighborhoods that consist of one-unit properties when there is a substantial rental market. The income approach to value may not be appropriate in areas that consist mostly of owner-occupied properties because adequate rental data does not exist for those areas. However, USPAP requires the appraiser to develop and report the result of any approach to value that is necessary for credible assignment results. If the appraiser believes the income approach is necessary for credible assignment results, then the income approach must be included. Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

When the income approach to value is used, the appraisal report must include the supporting comparable rental and sales data, and the calculations used to determine the gross rent multiplier. If the appraiser has completed the income approach, the lender must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the income approach are consistent with comments mentioned elsewhere in the report.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.3-11, Valuation Analysis and Reconciliation (04/15/2014)

### Introduction

This topic contains information on reviewing the valuation analysis and final reconciliation, including:

- [Overview](#)
- [Reconciliation](#)

### Overview

The valuation sections of Fannie Mae's appraisal report forms enable an appraiser to develop and report, in a concise format, an adequately supported opinion of market value based on the cost, sales comparison, and income approaches to value, as applicable. If the appraiser believes that additional information needs to be provided because of the uniqueness of the property or some other condition, they should provide additional supporting data in an addendum to the appraisal report form.

### Reconciliation

In the Reconciliation section of the appraisal report form, the appraiser considers the reliability and applicability of each of the approaches to value that was utilized in the appraisal report. After consideration of each of the approaches to value, the appraiser will provide their final value opinion. In the Reconciliation section, appraisers must

- reconcile the reasonableness and reliability of each applicable approach to value,
- reconcile the reasonableness and validity of the indicated values,
- reconcile the reasonableness of available data, and
- select and report the approach or approaches that were given the most weight.

The reconciliation is based on the appraiser's judgment of the results developed as part of the valuation process and must never be an averaging technique with the exception of the use of a weighted average technique that includes proper explanation. The final reconciled indicated value must be within the range of the values indicated by the Approaches used in the appraisal report form.

### Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.3-12, Quality Assurance (06/03/2020)

### Introduction

This topic contains information on changes to the appraised value, appraisal deficiencies, and quality assurance, including:

- [Changes to the Appraised Value](#)
- [Guidance on Addressing Appraisal Deficiencies](#)
- [Lender Requirements](#)
- [Fannie Mae's Referrals to State Appraiser Boards](#)
- [Refusal to Accept Appraisals from Specific Appraisers](#)

### Changes to the Appraised Value

The lender is responsible for confirming that appraisal reports are complete and that any changes to the reports are made by the appraiser that originally completed the report. If the lender has concerns with any aspect of the appraisal that result in questions about the reliability of the opinion of market value, the lender must attempt to resolve its concerns with the appraiser that originally prepared the report. If the lender is unable to resolve its concerns with the appraiser, the lender must obtain a replacement report prior to making a final underwriting decision on the loan. Any request for a change in the opinion of market value must be based on material and substantive issues and must not be made solely on the basis that the opinion of market value as indicated in the appraisal report does not support the proposed loan amount. For information concerning the process lenders must follow to address a change of the opinion of market value, see [Guidance on Addressing Appraisal Deficiencies](#) in this topic.

Lenders must pay particular attention and institute extra due diligence for those loans in which the appraised value is believed to be excessive or when the value of the property has experienced significant appreciation in a short time period since the prior sale. Fannie Mae believes that one of the best ways lenders can reduce the risk associated with excessive values or rapid appreciation is by receiving accurate appraisals from knowledgeable, experienced appraisers.

### Guidance on Addressing Appraisal Deficiencies

If the lender considers an appraisal deficient, the lender has the following options for addressing the deficiencies:

- contacting the appraiser to address deficiencies contained in the appraisal report,
- obtaining a desk review or a field review of the original appraisal, or
- obtaining a new appraisal of the subject property.

The lender can return the appraisal report to the appraiser that completed the assignment, identify the

deficiencies found, and provide justification for requesting correction of the deficiencies the lender believes make the report unreliable.

If the lender is unable to obtain a revised appraisal that adequately addresses its concerns, a desk or field review of the report may be obtained. The review must be completed in accordance with the USPAP. Because the Scope of Work for either type of review allows for a change of the opinion of market value for something other than a mathematical error, the appraiser completing the appraisal review must

- be licensed or certified in the state in which the property is located,
- have access to the appropriate data sources, and
- possess the knowledge and experience to appraise the subject property with respect to both the specific property type and geographical location.

The lender may forego either type of review and obtain a new appraisal. When a new appraisal is obtained, the lender must document the deficiencies that are the basis for ordering the new appraisal and adhere to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value. The lender must either document the resolution of the noted deficiencies in the original appraisal or detail the reasons for relying on a second opinion of market value.

## Lender Requirements

A lender must continually evaluate the quality of the appraiser's work through the normal review process of all appraisal reports, as well as through the spot-check field review or desk review of appraisals as part of its quality assurance system. For detailed requirements, see [D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection](#).

## Fannie Mae's Referrals to State Appraiser Boards

Fannie Mae conducts different levels of due diligence for quality control purposes and may refer unacceptable appraisal reports to state appraiser licensing or regulatory boards for investigation.

Fannie Mae's objectives in referring appraisal reports to state appraiser licensing or regulatory boards are

- to emphasize continuing efforts to maintain the quality of appraisals,
- to protect Fannie Mae's interest,
- to improve the quality of mortgages delivered to Fannie Mae by identifying appraisers that have performed appraisals of a sufficiently poor quality as to impair the security interests,
- to help the industry enhance the quality of appraisals by identifying and referring appraisals that are not adequately supported or credible, and
- to help enforce professional standards.

**Note:** Fannie Mae's decision to make such referrals does not affect the lender's responsibility for managing the property valuation and appraisal review process.



## Refusal to Accept Appraisals from Specific Appraisers

Fannie Mae may refuse to accept appraisals prepared by specific appraisers, or Fannie Mae may notify a lender that appraisals prepared by a given appraiser are no longer accepted. When a lender is notified that appraisals from specific appraisers are no longer accepted, the lender is prohibited from delivering mortgages to Fannie Mae secured by properties appraised by that individual immediately following its receipt of Fannie Mae's notice.

### Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2020-03</a>	June 03, 2020

## Section B4-1.4, Special Appraisal and Other Valuation Considerations

### B4-1.4-01, Factory-Built Housing: Manufactured Housing (10/04/2023)

#### Introduction

This topic contains information on manufactured housing appraisal requirements, including:

- [Overview](#)
- [Manufactured Housing Appraiser Qualifications](#)
- [Manufactured Housing Appraisal Requirements and Standards](#)
- [Newly Constructed Manufactured Housing Appraisal Requirements](#)
- [Manufactured Housing Appraisal Site Requirements](#)
- [Manufactured Housing Appraisal Comparable Selection Requirements Excluding MH Advantage](#)
- [MH Advantage Appraisal Comparable Selection Requirements](#)
- [Manufactured Housing Appraisal Cost Approach Requirements](#)
- [Sources of Manufactured Housing Data](#)

## Overview

Fannie Mae requires market-based property valuations for manufactured homes demonstrated by a well-developed sales comparison approach to value that is further supported by the cost approach to value.

For manufactured housing property eligibility requirements, including special appraisal requirements for MH Advantage properties, see [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#). For manufactured housing mortgage eligibility and underwriting requirements, see [B5-2, Manufactured Housing](#).

## Manufactured Housing Appraiser Qualifications

The valuation principles for appraising manufactured homes are essentially the same as for other types of residential property. However, not all appraisers are knowledgeable and experienced about the unique construction process, as well as the manufacturers' and federal, state, and local requirements for both construction and installation.

The lender must ensure that the appraiser is knowledgeable about the local manufactured home market and the unique construction process for manufactured homes, and has access to appropriate data sources in order to render an opinion of value for the manufactured home. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements as well as the [Appraiser Independence Requirements](#).

## Manufactured Housing Appraisal Requirements and Standards

The list below provides requirements and standards for manufactured housing appraisals.

- For purchase money mortgages, the lender must provide the appraiser with
  - a complete copy of the executed contract for sale of the manufactured home and land; or
  - a complete copy of the executed contract for both, if the manufactured home and land are purchased separately; and
  - a copy of the manufacturer's invoice if the manufactured home is new.

The appraiser must analyze the contract(s) and the manufacturer's invoice for new manufactured homes, and provide a summary in the appraisal report.

- The appraiser must report the results of a manufactured home appraisal on the *Manufactured Home Appraisal Report (Form 1004C)*. The use of Form 1004C will help to ensure that the appraiser inspected, considered, and reported the appropriate information including, but not limited to, the:
  - manufacturer's name,
  - trade or model number,
  - year of manufacture,
  - serial number,

- Certification number(s) from the HUD Data Plate or HUD Certification Label(s),
- type of foundation and utility connections,
- detailed and supported cost approach,
- opinion of the market value of the site, and
- property's conformity to the neighborhood.

**Note:** For existing construction, the appraiser must also provide a photo(s) of the HUD Data Plate or the HUD Certification Label(s) for each section of the home. (Both are required for new construction.)

- The appraiser must indicate a value conclusion based solely on the real property as completed consisting of the
  - manufactured home,
  - site improvements, and
  - land on which the home is situated.

The value conclusion cannot include any non-realty items including, but not limited to, insurance, warranties, and furniture.

## Newly Constructed Manufactured Housing Appraisal Requirements

For new manufactured homes not yet attached to the land or not yet constructed, the appraisal may be based on either plans and specifications or an existing model home. If required information is not available at the time the appraiser is completing the appraisal forms, the appraiser must appraise the property subject to the receipt and review of the items and completion of the improvements as a condition of the appraisal. Information that may not be available can include, but is not limited to, the dealer invoice, the HUD Data Plate, and the Certification Label numbers.

A certification of completion must be obtained before the mortgage is sold to Fannie Mae. The certification must

- be completed by the original appraiser if possible, or if not possible, by a substitute appraiser as provided for in [B4-1.2-04, Appraisal Age and Use Requirements](#);
- verify and state that the improvements were completed and all other requirements and conditions of the appraisal have been satisfied;
- include previously unavailable information, and a summary of the appraiser's analysis of any previously unavailable dealer invoice; and
- include photos of the completed improvements attached to the permanent foundation, and of the HUD Data Plate and HUD Certification Label(s), or acceptable alternatives.

## Manufactured Housing Appraisal Site Requirements

The appraisal site requirements for manufactured housing are as follows:

- The appraiser must base their opinion of value on the characteristics of the subject property, including

the site area. The appraisal report must indicate whether or not the site is compatible with the neighborhood, and must comment on the conformity of the manufactured home to other manufactured homes in the neighborhood.

- The property site must be of a size, shape, and topography that is conforming and acceptable in the neighborhood. It must also have competitive utilities, street improvements, adequate vehicular access, and other amenities. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in their analysis and valuation. The appraiser must comment if the site has adverse conditions or is not typical for the neighborhood.

## Manufactured Housing Appraisal Comparable Selection Requirements Excluding MH Advantage

The comparable selection requirements for manufactured housing appraisals, excluding MH Advantage are as follows:

- The appraiser must use a minimum of two comparable sales that are manufactured homes. If the subject property is a single-width manufactured home, one comparable must be a closed sale of the same single-width configuration, when available. If the appraiser is unable to find a single-width comparable sale, an active listing or “under contract” sale will qualify as a supplemental exhibit to show marketability. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale, and make and support appropriate adjustments in the appraisal report.
- In markets where condo projects with manufactured homes are more common, at least two comparables should be manufactured homes located in a condominium project. In markets where condo projects with manufactured homes are atypical, the appraiser may select comparables from a mixture of manufactured homes and manufactured home condos provided the appraiser is able to provide adequate written explanation and make appropriate adjustments.
- An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the “sales comparison analysis” and determine sound adjustments to reflect the differences between comparable sales that are available and the subject property.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

## MH Advantage Appraisal Comparable Selection Requirements

MH Advantage properties are built to meet construction, architectural design, and energy efficiency standards that are more consistent with site-built homes. Accordingly, for MH Advantage properties, appraisers must use other MH Advantage properties (homes that have an MH Advantage sticker) for the comparable sales. However, if fewer than three MH Advantage sales are available, then the appraiser must supplement those comparable sales with the best and most appropriate sales available. Such sales must include a minimum of two site-built homes in recognition of the design standards for MH Advantage. There is no requirement to include factory-built

home sales that are not MH Advantage, but if used, the appraiser must note why it was selected as a comparable sale, based on an assessment of the physical features of the subject property.

## Manufactured Housing Appraisal Cost Approach Requirements

Fannie Mae requires a detailed and supported cost approach to value for all manufactured homes which must, at a minimum, contain the information indicated on the Form 1004C. The appraiser may choose to report the results of the cost approach on Form 1004C or by using a report form from a published cost service as an addendum to the appraisal report form. Whatever format the appraiser chooses to report the cost approach, the information must be sufficient to allow the lender to replicate the cost figures and calculations. The sales comparison and cost approach to value are complementary for the valuation of manufactured housing and must support the final value conclusion. A properly developed and detailed cost approach will provide the information necessary for an appraiser to

- recognize differences in manufactured home construction quality,
- understand the difference between the comparable sales and the subject property,
- extract from the market appropriate adjustments for the sales comparison analysis, and
- identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales.

## Sources of Manufactured Housing Data

Traditional appraisal data sources do not provide enough quality manufactured home data for the appraiser to develop a supportable and well-documented manufactured home appraisal. While sources such as MLS and public records are important and may contain some data, appraisers must utilize other data sources, such as manufactured home dealers and construction companies/builders experienced in the installation of manufactured homes.

One important source of manufactured housing information is the *NADA Manufactured Housing Appraisal Guide*. That publication

- lists general manufactured home depreciated replacement values based on original factory construction categories, and
- offers a step-by-step process for arriving at the average retail book value for a manufactured home and can be used to develop a cost approach.

**Note:** NADA chart values assume the home is in average condition. The publication provides definitions for “excellent,” “good,” “average,” “fair,” and “poor” to appropriately identify the condition of the manufactured home.

Another source of information is Marshall & Swift’s *Residential Cost Handbook*. Marshall & Swift provides

- information that enables the user to arrive at an estimate of the cost of the manufactured home when new and the replacement cost based on, among other things, the construction quality; as well as
- an explanation of the items that enables the appraiser to support their conclusion of the overall

construction quality of the manufactured home.

The appraiser must support their opinion about both the quality and the condition of the manufactured home because they play a very important role in the value and marketability of manufactured homes. The NADA guide or the Marshall & Swift handbook may be used as additional sources to provide support for the appraiser's conclusions about the quality and value of a manufactured home.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-09</a>	October 04, 2023
<a href="#">Announcement SEL-2023-01</a>	February 01, 2023
<a href="#">Announcement SEL-2020-07</a>	December 16, 2020

## B4-1.4-02, Factory-Built Housing: Modular, Prefabricated, Panelized, or Sectional Housing (10/06/2021)

### Introduction

This topic contains information on special appraisal considerations for modular, prefabricated, panelized, or sectional housing, including:

- [Overview](#)
- [Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing](#)
- [Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing](#)

### Overview

Modular homes must be built under the International Residential Code (IRC) that is administered by the state agency that is responsible for adopting and administering building code requirements for the state in which the modular home is installed. Prefabricated, panelized, or sectional housing does not have to satisfy either HUD's

Federal Manufactured Home Construction and Safety Standards or the IRC that are adopted and administered by the state in which the home is installed. The home must conform to local building codes in the area in which it will be installed.

For modular, prefabricated, panelized, or sectional housing eligibility requirements, see [B2-3-02, Special Property Eligibility and Underwriting Considerations: Factory-Built Housing](#).

## Appraisal Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

Fannie Mae does not have minimum requirements for width, size, roof pitch, or any other specific construction detail for modular homes, or any other types of factory-built homes. Because quality can account for large differences in the values of factory-built homes, it is important for the appraiser to become familiar with the features that affect the quality of a factory-built home so that the information can be included in the appraisal report if needed to support their opinion of value.

## Comparable Selection Requirements for Modular, Prefabricated, Panelized, or Sectional Housing

The process of selecting comparable sales for factory-built housing is generally the same as that for selecting comparable sales for site-built housing. Fannie Mae requires the appraiser to address both the marketability and comparability of modular homes and other types of factory-built housing. When the subject property is modular, prefabricated, panelized, or sectional housing, it is not required that one or more of the comparable sales be the same type of factory-built housing, although using comparable sales of similar types of homes generally enhances the reliability of the appraiser's opinion of value. Fannie Mae requires the appraiser to include in the appraisal report the most appropriate comparable sales data to support their opinion of value for the subject property. See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2021-09</a>	October 06, 2021

## B4-1.4-03, Condo Appraisal Requirements (04/15/2014)

### Introduction

This topic contains information on special appraisal considerations for units located in condo projects, including:

- [Overview](#)
- [Appraisal Requirements for Units in a Condo Project](#)

### Overview

A condo project is one in which individual owners hold title to units in the project along with an undivided interest in the real estate that is designated as the common area for the project.

### Appraisal Requirements for Units in a Condo Project

The appraisal of an individual unit in a condo project requires the appraiser to analyze the condo project as well as the individual unit. The value and marketability of the individual units in a project depend on the marketability and appeal of the project itself. Therefore, the appraiser must pay special attention to

- the location of the individual unit within the project,
- the project amenities, and
- the amount and purpose of the owner's association assessment.

See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

### Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.4-04, Co-op Appraisal Requirements (04/15/2014)

### Introduction

This topic contains information on special appraisal considerations for units in co-op projects, including:

- [Overview](#)



- [Appraisal Requirements for Co-op Share Loans](#)
- [Comparable Selection Requirements for Co-op Share Loans](#)
- [Comparable Selection Requirements for Co-op Share Loans in Established Projects](#)
- [Comparable Selection Requirements for Co-op Share Loans in New \(or Recently Converted\) Projects](#)

## Overview

A co-op corporation holds title to a co-op project and grants occupancy rights to particular apartments or units to shareholders through proprietary leases or similar arrangements. The co-op interest is the co-op shares or other evidence of an ownership interest in the co-op corporation and the accompanying occupancy rights, excluding the co-op interest's *pro rata share* of the debt service of the blanket mortgage. In other words, the co-op interest is the equity portion that is over and above the *pro rata* share of the blanket mortgage(s).

**Note:** The lender is required to receive Fannie Mae approval to deliver mortgages secured by units in co-op projects.

## Appraisal Requirements for Co-op Share Loans

The appraisal requirements for co-op share loans are as follows:

- Appraisers must develop an opinion of the market value of the co-op interest when evaluating co-op units. To determine the value of the co-op interest, appraisers must consider and report, among other things, the following information:
  - the number of shares attributable to the unit;
  - the number of shares issued and outstanding for the co-op corporation;
  - the name of the lienholder, the lien position, and the amount and repayment terms of all project blanket financing;
  - the *pro rata* share of the blanket mortgage payments that are attributable to the unit, as determined by dividing the number of shares attributable to the unit by the total number of project shares;
  - the *pro rata* share of each lien that is attributable to the unit;
  - any tax abatements or exemptions that are attributable to the unit;
  - the remaining term for any tax abatements or exemptions and provisions for escalation of real estate taxes, which is the dollar amount by which the taxes will increase and the year in which the increase will occur; and
  - any monthly maintenance fees, including:
    - utility charges, if they are part of these fees;
    - monthly special assessments;
    - ground rent;
    - other fees for the use of the facilities that are attributable to the unit; and

- the fee type, amount, and term (if applicable) of those other fees.

This information can be developed through *Request for Cooperative Project Information (Form 1074)*, if the management agent, co-op board, or project sponsor/developer uses the form to respond to lender or appraiser inquiries for project information. When Form 1074 is used, appraisers may either transcribe the appropriate information to the applicable appraisal report or attach the form to the report as an addendum.

- Appraisers must use reliable sources to obtain data on the co-op project, the individual subject unit, and the comparable properties, and indicate the name of each source on the appraisal report or in an addendum to the appraisal report.
- Appraisers must address any factors that could result in an increase to the monthly debt service for the subject unit.
- Appraisers must indicate in the Sales Comparison Approach adjustment grid the dollar amount of the monthly assessments for each of the comparable sales.
- Appraisers must report the value of the co-op interest, excluding its *pro rata* share of the blanket mortgage(s). This value reflects the market value for the co-op interest of the unit. For example, when the indicated value of the unit encumbered by the blanket mortgage(s) is \$100,000, and its *pro rata* share of the blanket mortgage(s) is \$25,000, the value estimate that the appraiser must report for the co-op interest of the unit is \$75,000.
- Appraisers must include a certification in the appraisal report that the *pro rata* share of the blanket mortgage(s) on the real estate has not been included in the opinion of the market value of the co-op interest.

## Comparable Selection Requirements for Co-op Share Loans

The comparable selection requirements for co-op share loans are as follows:

- Appraisers must comment on the acceptance of housing co-ops in the market area. The degree of acceptance is generally reflected in the availability of similar comparable sales data for co-op units. If there is limited market acceptance of the co-op form of ownership or if co-op forms of ownership are relatively new in the market area, appraisers must address any effect that has on the value and marketability of the unit that is being appraised. The appraiser must compare the subject unit to the general market area as well as to other units in the subject co-op project. This comparison demonstrates market acceptance of co-op units in the area.
- Comparable sales must be from similar types of projects that have similar common amenities and recreational facilities including, but not limited to, townhouses and mid-rise and high-rise buildings.
- When available, appraisers must use sales from co-op units as comparables. However, appraisers may use condo units as comparable sales if co-op units are not available, as long as the appraiser explains why those types of comparables were used and adjusts the condo comparables to reflect the reaction of the market to the co-op unit when there is a preference for condo ownership in the subject market area.

See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

## Comparable Selection Requirements for Co-op Share Loans in Established

## Projects

Comparable sales from within the same project as the subject property should be used if the project has resale activity. Sales activity from within the project should be the best indicator of value for properties in that project.

**Note:** Use of comparable sales located outside of the established subject neighborhood must be explained in the appraisal analysis.

When the subject property is a unit in an established co-op project that has sales activity, appraisers should use the following as comparables:

- two closed or settled sales from within the subject project, if available; and
- one closed or settled sale from a competing project.

See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

## Comparable Selection Requirements for Co-op Share Loans in New (or Recently Converted) Projects

If the subject property is a unit in a new or recently converted co-op project, appraisers should select as comparables

- one closed or settled sale from the subject project, if one is available; and
- two closed or settled sales from outside of the project.

If closed or settled sales are not available in the subject project, appraisers must use sales from competing projects.

See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.4-05, Leasehold Interests Appraisal Requirements (04/15/2014)

### Introduction

This topic contains information on special appraisal considerations for properties subject to leasehold interests, including:

- [Overview](#)

- [Appraisal Requirements for Leasehold Interests](#)
- [Comparable Selection Requirements for Leasehold Interests](#)

## Overview

A mortgage that is secured by a leasehold estate or is subject to the payment of “ground rent” gives the borrower the right to use and occupy the real property under the provisions of a lease agreement or ground lease, for a stipulated period of time, as long as the conditions of the lease are met. When the lease holder is a community land trust, there may be significant restrictions on both the purchase and resale of the property. For more information on appraising this type of leasehold, see [B4-1.4-06, Community Land Trust Appraisal Requirements](#).

**Note:** Manufactured housing located on leasehold interest properties is ineligible for delivery to Fannie Mae.

## Appraisal Requirements for Leasehold Interests

The appraisal requirements for leasehold interest properties are as follows:

- Appraisers must develop a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions regarding lease agreements or ground leases and include this information as an addendum to the appraisal report.
- Appraisers must discuss what effect, if any, the terms, restrictions, and conditions of the lease agreement or ground lease have on the value and marketability of the subject property.

## Comparable Selection Requirements for Leasehold Interests

When there are a sufficient number of closed comparable property sales with similar leasehold interests available, the appraiser must use the property sales in the analysis of market value of the leasehold estate for the subject property.

However, if not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, sales of similar properties that were sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate, and must make appropriate adjustments in the Sales Comparison Approach adjustment grid to reflect the market reaction to the different lease terms or property rights appraised. See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.4-06, Community Land Trust Appraisal Requirements (04/15/2014)

### Introduction

This topic contains information on special appraisal considerations for properties subject to a community land trust, including:

- [Appraiser Qualifications for Appraising Properties Located in a Community Land Trust](#)
- [Appraisal Requirements for Community Land Trust Appraisals](#)
- [Comparable Selection Requirements for Determining Fee Simple Value](#)
- [Determining the Capitalization Rate](#)
- [Determining the Leasehold Value](#)
- [Addendum to the Appraisal Report](#)

### Appraiser Qualifications for Appraising Properties Located in a Community Land Trust

The lender must ensure that the appraiser is knowledgeable and experienced in the appraisal techniques, namely the direct capitalization and the market derivation of capitalization rates that are necessary to appraise a property subject to a leasehold estate held by a community land trust. Lenders must establish policies and procedures to ensure that qualified individuals are being selected in accordance with Fannie Mae requirements including the *Appraiser Independence Requirements*.

### Appraisal Requirements for Community Land Trust Appraisals

The appraisal requirements for community land trust properties are as follows:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Because the community land trust typically subsidizes the sales price to the borrower, that price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser because the resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property. Fannie Mae has developed the *Community Land Trust Ground Lease Rider* ( [Form 2100](#) ) that the lender and the borrower must execute to remove such restrictions from the community land trust's ground lease. The land records for the subject property must include adoption of the terms and conditions that are incorporated in that ground lease rider. The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when Fannie Mae has to dispose of a property acquired through foreclosure. (For additional information, see Section B5-5.3, Shared Equity

Transactions, for legal considerations.)

- The appraiser must use a three-step process to develop an opinion of value.

Step	The appraiser must determine
1	the fee simple value of the property by using the sales comparison analysis approach to value,
2	the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
3	the leasehold value by reducing the fee simple value by the lease fee value. (For detailed information related to this process, see below.)

**Note:** When this appraisal technique is used, there is no need to document the actual land value of the security property.

- On the actual appraisal report form, the appraiser must
  - indicate “leasehold” as the property rights appraised,
  - provide the applicable ground rent paid to the community land trust,
  - show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid,
  - report the “leasehold value” as the indicated value conclusion, and
  - check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

## Comparable Selection Requirements for Determining Fee Simple Value

In determining the fee simple value of the subject property, the appraiser must use comparable sales of similar properties that are owned as fee simple estates. If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as they make appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.

When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report, but must not use them as comparable sales because, in all likelihood, the sales prices will have been limited by restrictions in the ground lease. Therefore, these sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions on which Fannie Mae requires the appraisal of the subject property to be based. See [B4-1.3-08, Comparable Sales](#), for general requirements regarding comparable selection.

## Determining the Capitalization Rate

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity. To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a “riskless” (safe) rate.

## Determining the Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust’s ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at their opinion of the leasehold value of the subject property.

For example, assume that the annual ground rent from the community land trust’s ground lease is \$300, the market-derived capitalization rate is 5.75%, and the estimated fee simple value of the subject property is \$100,000:

- $\$300 \text{ annual rent} / 5.75\% \text{ capitalization rate} = \$5,217.39$  (rounded to \$5,200)
- $\$100,000 \text{ fee simple value} - \$5,200 \text{ leased fee value} = \$94,800$  (leasehold value)

## Addendum to the Appraisal Report

Because Fannie Mae’s appraisal report forms do not include space to provide all of the details required for appraising a property subject to a leasehold held by a community land trust, the appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box “as is” and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered. The addendum must also include the following statement:

“This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider.”

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.4-07, Mixed-Use Property Appraisal Requirements (04/15/2014)

### Introduction

This topic contains information on special appraisal considerations for mixed-use properties, including:

- [Overview](#)
- [Appraisal Requirements for Mixed-Use Properties](#)

### Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties that have a business use in addition to their residential use provided that special eligibility criteria are met. These business uses can include, but are not limited to, properties with space set aside for day care facilities, beauty or barber shops, or doctor's offices. For eligibility criteria, see [B2-3-04, Special Property Eligibility Considerations](#).

### Appraisal Requirements for Mixed-Use Properties

The appraisal requirements for mixed-use properties must

- provide a detailed description of the mixed-use characteristics of the subject property;
- indicate that the mixed use of the property is a legal, permissible use of the property under the local zoning requirements;
- report any adverse impact on marketability and market resistance to the commercial use of the property; and
- report the market value of the property based on the residential characteristics, rather than of the business use or any special business-use modifications that were made.

### Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.4-08, Environmental Hazards Appraisal Requirements



(03/01/2023)

## Introduction

This topic contains information on special appraisal considerations for properties affected by environmental hazards, including:

- [Overview](#)
- [Appraisal Requirements](#)
- [Lender Requirements](#)

## Overview

Fannie Mae purchases or securitizes mortgage loans secured by properties affected by environmental hazards if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal, and the appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazard.

In rare situations, a particular environmental hazard may have a significant effect on the value of the subject property, although the actual effect is not measurable because the hazard is so serious or so recently discovered that an appraiser cannot arrive at a reliable opinion of market value because there is no comparable market data available, such as sales, contract sales, or active listings that are available to reflect the effect of the hazard. In such cases, the mortgage will not be eligible for delivery to Fannie Mae.

## Appraisal Requirements

When the appraiser has knowledge of any hazardous condition, whether it exists in or on the subject property or on any site within the vicinity of the property, including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea-formaldehyde insulation, or radon gas, the appraiser must

- note the hazardous condition in the appraisal report;
- comment on any influence the hazard has on the property's value and marketability, if it is measurable through an analysis of comparable market data as of the effective date of the appraisal, or indicate that the comparable market data reveals no buyer resistance to the hazard;
- make appropriate adjustments in the overall analysis of the property's value; and
- make the appraisal "subject to" inspection by a qualified professional.

Fannie Mae expects the appraiser to consider and use comparable market data from the same affected area because the sales prices of settled sales, the contract sales prices of pending sales, and the current asking prices for active listings will reflect any negative effect on value and marketability of the subject property.

**Note:** Fannie Mae does not consider the appraiser to be an expert in the field of environmental

hazards. The typical residential real estate appraiser is neither expected nor required to be an expert in this specialized field. The appraiser, however, has a responsibility to note in the appraisal report any adverse conditions that were observed during the inspection of the subject property or information that they became aware of through the normal research involved in performing an appraisal.

## Lender Requirements

Fannie Mae requires the lender to disclose any information regarding environmental hazards to the appraiser and note the individual mortgage file accordingly if the real estate agent, the property seller, the property purchaser, or any other party to the mortgage transaction informs the lender that an environmental hazard exists in or on the property, or in the vicinity of the property. Fannie Mae also requires the lender to disclose such information to the borrower, and to comply with any state or local environmental laws regarding disclosure.

The lender must make the final decision about the need for inspections and the adequacy of the property as security for the mortgage. For example, because Fannie Mae requires the appraiser to comment on the effect of a hazard on the value and marketability of the subject property, the appraiser would have to note when there is market resistance to an area because of environmental hazards or any other conditions that affect well, septic, or public water facilities. When the lender has reason to believe that private well water that is on or available to a property might be contaminated as a result of the proximity of the well to hazardous waste sites, the lender is exercising sound judgment if it obtains a “well certification” to determine whether the water meets community standards.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcements SEL-2023-02</a>	March 01, 2023

## B4-1.4-09, Special Assessment or Community Facilities Districts Appraisal Requirements (04/15/2014)

### Introduction

This topic contains information on special appraisal considerations for properties in special assessment or community facilities districts, including:

- [Overview](#)
- [Lender Responsibilities Related to Special Assessment or Community Facilities Districts](#)

- [Special Assessment Districts](#)
- [Appraisal Requirements for Properties Located in Special Assessment Districts](#)
- [Community Facilities Districts](#)
- [Appraisal Requirements for Properties Located in Community Facilities Districts](#)

## Overview

Alternative methods for raising the capital necessary to satisfy utility and infrastructure requirements are sometimes used in the development of new residential communities. In some instances, this involves the creation of local districts called special assessment districts or community facilities districts that have the authority to assess homeowners for the cost of developing utility services and various infrastructure facilities, including, but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

## Lender Responsibilities Related to Special Assessment or Community Facilities Districts

Fannie Mae expects the lender to know if a property is located in one of these districts and to be aware of the effect that assessments levied by the district could have on property values and the marketability of the subject property. The lender's appraiser, therefore, must give special consideration to the valuation of properties located in these districts.

## Special Assessment Districts

Special assessment districts, also called special tax districts or municipal utility districts, provide a specific service to homeowners living in a designated area. They are most often established to provide water or other utilities in areas that are not served by existing city or municipal utility services. The need for these districts arises when an existing utility service does not have sufficient capacity, or may not find it economically feasible to provide services for newly created subdivisions that are located beyond its current operating area. State law governing the establishment of special assessment districts varies greatly, as does the financial strength of the individual districts. These districts are granted the authority to assess owners of properties within their boundaries for funds that will be used to cover their operating costs and debt service.

Special assessment districts that are established to serve newly developing subdivisions with utilities often base their financial plans and the amount of the assessment to be charged to each property owner on the expected number of properties in the area to be served. The district then depends on the continuation of development to maintain its budget expectations. If, for any reason, development stops short of the degree of development that the district anticipated in preparing its budget, the district can become financially distressed and may need to impose an additional assessment on the existing homeowners.

## Appraisal Requirements for Properties Located in Special Assessment Districts

The appraisal requirements for properties located in special assessment districts must

- report any special assessments that affect the property, and

- note in the appraisal report if the special assessment district is experiencing financial difficulty and that the difficulty has an effect on the value or marketability of the subject property.

To ensure that the reaction of the market to the potential liabilities that may arise within a financially troubled special assessment district is reflected in their analysis, the appraiser must consider current and expired listings or properties for sale within the district and any pending contract sales and recent closed sales within the district.

There may be some instances in which the financial difficulty of a special assessment district is so severe that its actual effect on the value and marketability of a property is not measurable because there is no comparable market data available to enable the appraiser to arrive at a reliable opinion of market value. When this is the case, a mortgage secured by a property in that district will not be eligible for delivery to Fannie Mae until such time that an active market develops that will enable the appraiser to demonstrate the value and marketability of the subject property.

## Community Facilities Districts

Some jurisdictions have passed legislation that creates community facilities districts and permits them to levy a special tax to fund the capital costs of a wide variety of public improvements, as well as the ongoing operation and maintenance costs of a limited number of public services. Proceeds from the special tax are used to support the sale of tax-exempt bonds for the various capital improvements that are allowed under the legislation, including but not limited to, roads, sewer services, schools, police and fire protection services, and libraries.

The assessment that will be used to repay the tax-exempt bonds becomes an ongoing responsibility of the property owner, similar to state and local property taxes. The assessment lien and the obligation to pay the assessment passes with the title to the property when ownership of the property is transferred.

Such legislation generally requires full disclosure of the special assessment to any purchaser of a property located in a community facilities district. Therefore, a lender originating mortgages in community facilities districts should disclose to the appraiser any information that it becomes aware of regarding special assessments on a given property.

## Appraisal Requirements for Properties Located in Community Facilities Districts

Appraisers must be aware of whether the subject property and the comparables are located within or affected by a community facilities district because properties subject to an assessment by one of these districts often compete against properties that are either subject to a significantly different assessment or no assessment at all. Appraisers must consider the reaction of the market, if any, to the assessment for the applicable community facilities district by analyzing similarly affected comparable sales in their analysis, and should note the effect of the assessment in the appraisal report.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-1.4-10, Value Acceptance (Appraisal Waiver) (03/01/2023)

### Introduction

This topic contains information about value acceptance (appraisal waiver), including:

- [Overview](#)
- [Prior Appraisal Requirements](#)
- [Eligible Transactions](#)
- [Ineligible Transactions](#)
- [Representations and Warranties](#)
- [Rural High-Needs Value Acceptance \(Appraisal Waiver\)](#)
- [Exercising a Value Acceptance \(Appraisal Waiver\)](#)

### Overview

For certain loan casefiles, DU offers value acceptance (appraisal waiver), in which case an appraisal is not required. For loan casefiles that are not eligible for value acceptance (appraisal waiver), DU will require an appraisal reported on the appropriate appraisal report form for the type of property being appraised.

### Prior Appraisal Requirements

For value acceptance (appraisal waiver) to be considered, generally a prior appraisal must be found for the subject property in Fannie Mae's Collateral Underwriter (CU) data. When required, DU will compare the address for the subject property to the property addresses found in CU. DU will use the information from the prior appraisal to determine if the loan casefile is eligible for the appraisal waiver. In some cases, the prior appraisal may not be acceptable. For example, if a CU "Overvaluation Flag" was issued on the prior appraisal, or the appraisal could not be scored, that prior appraisal will not be used and an appraisal waiver will not be offered on the new loan casefile.

### Eligible Transactions

A value acceptance (appraisal waiver) offer will be considered for the following transactions:

- one-unit properties, including condos;
- principal residence and second home transactions;
- investment property refinance transactions;
- certain purchase, limited cash-out, and cash-out refinance transactions; and
- DU loan casefiles that receive an Approve/Eligible recommendation.

## Ineligible Transactions

The following transactions are not eligible for a value acceptance (appraisal waiver) offer:

- two- to four-unit properties;
- co-op units and manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- HomeStyle Renovation and HomeStyle Energy loans;
- leasehold properties;
- Texas Section 50(a)(6) loans;
- community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is \$1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

**Note:** DU may offer value acceptance (appraisal waiver) on a recently constructed property (i.e., new construction) when there is an existing “as is” prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different lender or borrower, but that loan did not close. The lender may execute the value acceptance (appraisal waiver) offer when the loan meets all other eligibility criteria for the transaction.

Furthermore, the lender may not exercise a value acceptance (appraisal waiver) offer and must order an appraisal if one or more of the following applies:

- DU was unable to identify ineligible criteria in the list above (for example, Texas Section 50(a)(6) loans);
- the lender is required by law to obtain an appraisal (see [A3-2-01, Compliance With Laws](#));
- the lender is using rental income from the subject property to qualify the borrower; or
- the lender believes that an appraisal is warranted based on additional information the lender has about the property or subsequent events.

**Note:** The lender may not exercise a value acceptance (appraisal waiver) offer if an appraisal is obtained for the transaction.

See [B5-7-02, High LTV Refinance Underwriting, Documentation, and Collateral Requirements for the New Loan](#) for additional information about high LTV refinance value acceptance (appraisal waiver).

## Representations and Warranties

When a loan casefile is eligible for value acceptance (appraisal waiver) and the offer is exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. See [A2-2-06, Representations and Warranties on Property Value](#) for more information.

## Rural High-Needs Value Acceptance (Appraisal Waiver)

In selected rural high-needs areas, Fannie Mae may offer a value acceptance (appraisal waiver) through DU for certain transactions. This value acceptance (appraisal waiver) may be combined with other loan products, such as HomeReady.

The rural high-needs value acceptance (appraisal waiver) offer will be considered for the following transactions only:

- loan casefiles that receive an Approve/Eligible recommendation;
- purchase transactions;
- one-unit principal residence properties (excluding manufactured homes);
- borrowers with income at or below 100% of the area median income; and
- LTV ratios up to 97% and CLTV ratios up to 105% with a Community Seconds.

The following are ineligible for the rural high-needs value acceptance (appraisal waiver):

- cash-out or limited cash-out refinances;
- second homes and investment properties; and
- all other transactions that are ineligible for value acceptance (appraisal waiver) as listed above.

The following table provides the requirements related to the home inspection. These requirements must be met for the lender to exercise the rural high-needs appraisal waiver.

✓	<b>The lender must</b>
	obtain a home inspection to determine the property condition. The inspection report must be retained in the loan file and made available to Fannie Mae upon request.
	review the inspection report to verify the property condition. The content of the inspection report must be sufficient for the lender to determine whether the property is safe, sound, and structurally secure. Any issues that compromise safety, soundness, or structural integrity must be repaired before loan delivery.
	obtain an affidavit signed by the borrower(s) confirming that they received a copy of the property inspection report, read the report, and were notified of any lender-required repairs.

✓	<b>The lender must</b>
	confirm that the purchase contract contains an inspection contingency that offers the borrower(s) enough time to cancel the contract without penalty if they so choose, should the inspection reveal an issue with the property.
	confirm that the inspector has liability insurance.
	use a professional inspector that meets the state license and education requirements for those states that regulate inspectors. Note: In states that do not have inspector licenses, inspectors that are professionally accredited members in good standing of a nationally recognized property inspection organization must be used. The national organization must require education, testing, and adherence to a code of ethics and to standards of practice.
	represent and warrant that the property is safe, sound, and structurally secure and that the property is not in C6 condition. See <a href="#">A2-2-06, Representations and Warranties on Property Value</a> and <a href="#">B4-1.3-06, Property Condition and Quality of Construction of the Improvements</a> for additional information.

## Exercising a Value Acceptance (Appraisal Waiver)

A lender may only exercise value acceptance (appraisal waiver) if

- the final submission of the loan casefile to DU resulted in a value acceptance (appraisal waiver) offer,
- an appraisal is not obtained for the transaction, and
- the value acceptance (appraisal waiver) offer is not more than four months old on the date of the note and the mortgage.

Lenders that elect to exercise value acceptance (appraisal waiver) must include SFC 801 at delivery. Lenders may not adversely select against Fannie Mae in determining which value acceptance (appraisal waiver) offers to accept. Fannie Mae may monitor the lender's exercise of value acceptance (appraisal waiver) offers and delivery of loans to Fannie Mae, and may take appropriate measures if adverse selection is identified.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.



Announcements	Issue Date
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2022-10</a>	December 14, 2022
<a href="#">Announcement SEL-2020-03</a>	June 03, 2020
<a href="#">Announcement SEL-2019-07</a>	August 07, 2019

## B4-1.4-11, Value Acceptance + Property Data (02/07/2024)

### Introduction

This topic contains information on value acceptance + property data including:

- [Overview](#)
- [Eligible Transactions](#)
- [Ineligible Transactions](#)
- [Representations and Warranties](#)
- [Property Data Collection](#)
- [Property Data Collector](#)
- [Exercising Value Acceptance + Property Data](#)
- [Property Data Collection with Needed Repairs or Completion Verification](#)

### Overview

For certain loan casefiles, DU offers value acceptance + property data - an option that requires interior and exterior property data collection to verify property eligibility prior to the note date. An appraisal is not required.

### Eligible Transactions

Loan casefiles for certain one-unit properties will be considered for value acceptance + property data.

### Ineligible Transactions

The following transactions are not eligible for value acceptance + property data:

- two- to four-unit properties;
- co-op units;
- manufactured homes;
- proposed construction;
- construction-to-permanent loans (single-close and two-close);
- investment properties when rental income is used to qualify the borrower;
- HomeStyle Renovation and HomeStyle Energy loans;
- Texas 50(a)(6) loans;
- leasehold properties;
- community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- transactions where either the purchase price or estimated value provided to DU is \$1,000,000 or more;
- transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- manually underwritten loans.

## Representations and Warranties

When a loan casefile is eligible for value acceptance + property data and exercised by the lender, Fannie Mae accepts the value estimate submitted by the lender as the value for the subject property. See [A2-2-06, Representations and Warranties on Property Value](#) for more information.

## Property Data Collection

The property data collection consists of a visual observation of the interior and exterior areas of the subject property. It must be performed by a trained and vetted property data collector and must adhere to the Uniform Property Dataset (UPD). This dataset consists of all required, conditionally required, and optional data elements for property data collection of subject property data including photos and a floor plan conforming to the ANSI Standard. See *Gross Living Area* in [B4-1.3-05, Improvements Section of the Appraisal Report](#) for ANSI standards, the [Property Data Collection User Guide](#) and [Uniform Property Dataset \(UPD\) Specification](#) for more information.

After the property data collection is completed, it must be successfully submitted to Fannie Mae's Property Data API. See Fannie Mae's [website](#) for more information about the UPD and the Fannie Mae Property Data API and access.

## Property Data Collector

The property data collector is the individual who personally visits the subject property to perform the property data collection guided by an application on a hand-held device developed in compliance with the UPD. The property data collector must identify and communicate any safety, soundness, or structural integrity issues and significant items of incomplete construction or renovation.

### Lender Vetting of Property Data Collectors

The lender must verify and be able to demonstrate that the data collectors are

- selected in accordance with Fannie Mae requirements, including the [Property Data Collector Independence Requirements](#),
- vetted through an annual background check,
- professionally trained, and
- they possess the essential knowledge to competently complete the property data collection.

The lender must ensure that the data collectors are trained to comply with their fair lending laws and deliver accurate results unaffected by personal biases. To avoid conflict of interest, the lender must ensure that the data collector has no interest in or ties to the underlying loan origination transaction, participants, or subject property.

The lender or lender's agent must review the data collector's credentials and qualifications on an annual basis to ensure ongoing compliance. Evidence of the reviews must be available to Fannie Mae upon request.

The lender must monitor and assess the work performed by the data collector through the lender's quality control program including prefunding and post-closing reviews. The lender must continually evaluate the quality of its property data collectors and property data collection (see [D1-3-04, Lender Post-Closing Quality Control Review of Appraisers, Appraisals, Property Data Collectors, and Property Data Collection](#)).

## Exercising Value Acceptance + Property Data

A lender may only exercise value acceptance + property data when

- the final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data,
- property data collection is submitted to the Property Data API prior to the note date,
- an appraisal is not obtained for the transaction, and
- the offer is not more than four months old on the date of the note and mortgage.

Lenders that elect to exercise value acceptance + property data must include Special Feature Code 774 at loan delivery. The property data collection is only valid for 12 months from date of collection and must be performed prior to the note date.

If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, in some cases it may be possible for the lender to provide the property data collection to an appraiser to perform a hybrid appraisal assignment. See [B4-1.2-03, Hybrid Appraisals](#) for specific requirements. Alternatively, the lender may obtain a desktop or traditional appraisal report as specified by DU.

## Property Data Collection with Needed Repairs or Completion Verification

The lender must represent and warrant that the property

- does not have safety, soundness, or structural integrity issues;
- does not have significant items of incomplete construction or renovation; and
- meets Fannie Mae's property eligibility requirements (see [B2-3-01, General Property Eligibility](#)).

To make these representations and warranties in the absence of an appraisal, the lender must examine the descriptive information and photo exhibits from the property data collection to determine whether the property meets the above requirements.

When the property data collection evidences any items failing eligibility requirements, the lender may need to obtain a professionally prepared report from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.). If repairs or alterations are necessary to bring the property into compliance with Fannie Mae's eligibility requirements, the lender must provide satisfactory evidence and documentation showing the condition has been corrected or completed prior to sale of the loan to Fannie Mae.

See *Form 1004D and Completion Alternatives* in [B4-1.2-05, Requirements for Verifying Completion and Postponed Improvements](#) for the applicable requirements to verify completion of repairs, alterations, or inspections.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Dates
<a href="#">Announcement SEL-2024-01</a>	February 07, 2024
<a href="#">Announcement SEL-2023-09</a>	October 04, 2023
<a href="#">Announcement SEL-2023-07</a>	August 02, 2023
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023

## Chapter B4-2, Project Standards

### Introduction

This chapter describes Fannie Mae's project standards, policies, and requirements.

## Section B4-2.1, General Project Standards

### B4-2.1-01, General Information on Project Standards (03/01/2023)

#### Introduction

This topic contains general information on Fannie Mae's project standards, including:

- [Fannie Mae's Project Risk Overview](#)
- [Project Documentation](#)
- [Condominium Project Questionnaire](#)
- [Project Types](#)
- [Project Review Methods](#)
- [Waiver of Project Review](#)
- [Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project](#)
- [Priority of Common Expense Assessments](#)
- [Delivery Requirements](#)
- [Expiration for Project Reviews](#)

#### Fannie Mae's Project Risk Overview

The quality of mortgages secured by units in condo, co-op, and planned unit development (PUD) projects can be influenced by certain characteristics of the project or by the project as a whole. Before delivering a loan secured by an individual unit in a project, the lender must determine that the project meets Fannie Mae's eligibility requirements.

Project eligibility risk is a risk that is distinct from the credit risk presented by individual borrowers. Units located in a project present risks that are also distinct from the risks associated with properties that are not part of a homeowners' association (HOA) or project. These risks include the following:

- the financial stability and viability of the project;
- the condition and marketability of the project;
- limitations on the unit owner's ability to control the decision-making for the project, occupy the unit, or utilize the project's amenities and common elements;
- dissolution of the project and the unit owner's resulting rights and responsibilities;
- project-level litigation;
- project-level misrepresentation and fraud;

- the inability to cure a mortgage default due to restrictions in the project documents such as, but not limited to, right of first refusal provisions; and
- insurance coverage that is inadequate to protect the project from unexpected losses.

Project eligibility and financial strength are key drivers of credit performance on individual unit mortgages and critical to the long-term success of the project. Fannie Mae's project eligibility and underwriting requirements seek to mitigate project level risks and to ensure that projects are demonstrably well-managed.

Lenders that sell mortgage loans secured by units in a condo, co-op, or PUD project to Fannie Mae are expected to have staff that are knowledgeable about and qualified to evaluate the specific risks presented by these types of projects. The project review is in addition to the review the lender completes for underwriting the borrower, the transaction terms, and the individual unit appraisal.

Fannie Mae's project standards requirements are intended to address common project types across a broad geographic range. If a lender determines that a project does not meet all of Fannie Mae's project eligibility criteria, but feels that the project has merit and warrants additional consideration, the lender may request an exception (see [B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers](#), for additional information).

## Project Documentation

The documentation needed to complete a project review may differ depending on the project and review type. Lenders are responsible for determining the documentation needed to ensure that the project meets all of Fannie Mae's eligibility requirements. Project documentation may include, but is not limited to, the following:

- legal and recorded documents including the covenants, conditions and restrictions, declaration of condominium, or other similar documents that establish the legal structure of the project;
- project budgets, financial statements, and reserve studies;
- project construction plans;
- architects' or engineers' reports;
- completion reports;
- project marketing plans;
- environmental hazard reports;
- attorney opinions;
- appraisal reports;
- evidence of insurance policies and related documentation; and
- condominium project questionnaires.

Sources for project information include, but are not limited to, appraisers, HOAs, co-op corporations, management companies, real estate agents, insurance professionals, and project developers. Lenders are responsible for the accuracy of any information obtained from these sources.

### Document Retention

Lenders must retain all of the project documentation needed to demonstrate that the project meets Fannie Mae’s eligibility requirements, including any documentation the lender relied upon to enter information into CPM. This documentation must be retained, and made available upon request, as long as lenders originate mortgages from the project, and until all mortgages sold to Fannie Mae have been liquidated.

## Condominium Project Questionnaire

The *Condominium Project Questionnaire (Form 1076)* helps lenders collect data to determine condo project eligibility. This form is optional; however, lenders are encouraged to use and retain the form in the loan file. A substantially similar form may also be used in its place.

## Project Types

The scope of Fannie Mae’s requirements and the specific eligibility criteria to be met are dependent upon various project types and/or loan level characteristics. The characteristics that define each project type are described in the following table.

Project Type	Identification Criteria
Established condo project	<p>A project for which all of the following are true:</p> <ul style="list-style-type: none"> <li>• at least 90% of the total units in the project have been conveyed to unit purchasers;</li> <li>• the project is 100% complete, including all units and common elements;</li> <li>• the project is not subject to additional phasing or annexation; and</li> <li>• control of the HOA has been turned over to the unit owners.</li> </ul> <p>A project may also be treated as an established project with less than 90% of the units sold to unit purchasers, provided the deficit is the result of the developer holding back units for rent. The following requirements must be met:</p> <ul style="list-style-type: none"> <li>• construction is 100% complete;</li> <li>• the project is not subject to any additional phasing or annexation, and the HOA has been turned over to the unit owners;</li> <li>• the developer’s share of the units held back for rental is no more than 20% of the project’s total units;</li> <li>• HOA fees are paid current in developer-held units; and</li> <li>• there are no active or pending special assessments in the project.</li> </ul>

Project Type	Identification Criteria
New condo project	<p>A project for which one or more of the following is true:</p> <ul style="list-style-type: none"> <li>• fewer than 90% of the total units in the project have been conveyed to unit purchasers (or 80% if it meets the exception noted in the row above);</li> <li>• the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a condo;</li> <li>• the project is newly converted;</li> <li>• the project is subject to additional phasing or annexation; or</li> <li>• HOA still in the developer’s control.</li> </ul>
Detached condo project	A project comprised solely of detached units or that comprises a mixture of attached and detached units and may be a new or established project.
Two- to four-unit condo project	A project comprised of two, three, or four residential units in which each unit is evidenced by its own title and deed. A two- to four-unit condo project may be either a new or established project and may be comprised of attached and/or detached units.
Manufactured home project	A project consisting partially or solely of manufactured homes.
Co-op project	A project in which a corporation or trust holds title to the property and sells shares of stock representing the value of a single apartment unit to individuals who, in turn, receive a proprietary lease as evidence of title.
Planned unit development (PUD) project	<p>A project or subdivision that consists of common property and improvements that are owned and maintained by an HOA for the benefit and use of the individual PUD unit owners. The unit owners in the project have title to a residential property (lot and structure) and an interest in the HOA that owns or manages the common area and facilities of the PUD.</p> <p>See <a href="#">B4-2.3-01, Eligibility Requirements for Units in PUD Projects</a>, for additional detail used in determining whether a project is subject to Fannie Mae’s PUD eligibility requirements.</p>

### Horizontal Property Regimes

Fannie Mae considers a development to be a condo project any time it is declared or filed as a horizontal property regime in accordance with local statutes. Exception is made, if the local statute provides for the horizontal property regime to be created as a PUD development and the project’s legal documents specifically



state that the project is a PUD.

Lenders must determine if the subject unit is located in a condo or PUD and use the appropriate mortgage documents and appraisal forms.

## Project Review Methods

Fannie Mae purchases or securitizes mortgage loans secured by units in condo, co-op, and PUD projects that meet Fannie Mae's eligibility requirements. To determine whether the project meets these requirements, a number of project review methods are available. Whether a project review method is allowable or required depends on

- the number of units in the project (two- to -four or more than four);
- the unit type (attached or detached);
- the project type (condo, co-op, or PUD);
- the project status (new or established); and
- the mortgage transaction.

The characteristics that dictate which method to use are shown in the following table.

Unit and Project Type	Project Review Methods
Attached condo unit in a new or newly converted project	<ul style="list-style-type: none"> <li>• Full Review completed with Condo Project Manager (CPM), or</li> <li>• Fannie Mae Review through the standard Project Eligibility Review Service (PERS) process</li> </ul>
Attached condo unit in an established project	<p>Based on the LTV, CLTV, and HCLTV ratios, occupancy, and location (projects in Florida), these projects may be reviewed using a Limited Review.</p> <p>Projects not meeting the Limited Review criteria must be reviewed using a</p> <ul style="list-style-type: none"> <li>• Full Review (with CPM),</li> <li>• FHA Project Approval (HUD Review and Approval Process only), or</li> <li>• Fannie Mae Review through the streamlined PERS process (for established condo projects)</li> </ul>
Unit in a new or established two- to four-unit condo project	Project review is waived, with the exception of some basic requirements that apply.

Unit and Project Type	Project Review Methods
Detached unit in a new or established condo project	Project review is waived, with the exception of some basic requirements that may apply.
Unit in a co-op project	<ul style="list-style-type: none"> <li>• Full Review</li> <li>• Fannie Mae Review through the standard PERS process</li> </ul> <p>Note: Lenders must obtain special approval to be eligible to deliver co-op share loans to Fannie Mae secured by ownership interest in a co-op share project. See <a href="#">A2-1-01, Contractual Obligations for Sellers/Serviceers</a>, for additional information.</p>
Multi-width manufactured homes in an established condo project	Full Review (without CPM)
<ul style="list-style-type: none"> <li>• New condo projects consisting of manufactured homes</li> <li>• Co-op projects consisting of manufactured homes</li> <li>• PUD and condo projects consisting of single-width manufactured homes</li> <li>• Newly converted non-gut rehabilitation condo and co-op projects (with attached units) that contain more than four units</li> <li>• New or newly converted condo projects consisting of attached units located in Florida</li> <li>• Limited or shared equity co-op projects, provided the limited or shared equity provisions are designed to preserve or promote access to affordable housing</li> </ul>	Fannie Mae Review through the standard PERS process
Established condo or PUD projects consisting of multi-width manufactured homes that are subject to a community land trust, deed restriction, leasehold estate, or shared equity arrangement	Fannie Mae Review through the streamlined PERS process

Unit and Project Type	Project Review Methods
Unit in a PUD project	Project review is waived, with the exception of some basic requirements that apply
Unit in a condo project approved by the FHA	FHA Project Approval (see <a href="#">B4-2.2-05, FHA-Approved Condo Review Eligibility</a> for additional details)

## Waiver of Project Review

Fannie Mae does not require a thorough project review for several types of projects or loan transactions, including:

- detached condo units;
- units in a two- to -four unit condo project;
- units in a PUD project;
- Fannie Mae to Fannie Mae limited cash-out refinances with LTV ratios < 80%; and
- high LTV refinance loans.

See [B4-2.1-02, Waiver of Project Review](#) for additional information and for the requirements that apply when a project review is waived.

## Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project

All mortgages secured by units in condo, co-op, or PUD projects must comply with the following:

- requirements specific to the project review method used to determine that project's eligibility;
- property eligibility requirements (described in Chapter B2-3, Property Eligibility);
- priority of common expense assessments (described below);
- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in Chapter B4-1, Appraisal Requirements); and
- insurance requirements (described in Subpart B7, Insurance, including all applicable provisions in Chapter B7-4, Liability and Fidelity/Crime Insurance Requirements for Project Developments).

## Priority of Common Expense Assessments

Fannie Mae allows a limited amount of regular common expense assessments (typically known as HOA fees) to have priority over Fannie Mae's mortgage lien for mortgage loans secured by units in a condo or PUD project. This applies if the condo or PUD project is located in a jurisdiction that has enacted

- the Uniform Condominium Act,
- the Uniform Common Interest Ownership Act, or
- a similar statute that provides for unpaid assessments to have priority over first mortgage liens.

The table below describes the permitted priority of common expense assessments for purposes of determining the eligibility of a mortgage loan secured by a unit in a condo or PUD project for purchase by Fannie Mae.

If the condo or PUD project...	Then...
is located in a jurisdiction that enacted a law on or before January 14, 2014, that provides that regular common expense assessments will have priority over Fannie Mae's mortgage lien for a maximum amount greater than six months,	the maximum number of months of regular common expense assessments permitted under the applicable jurisdiction's law as of January 14, 2014, may have priority over Fannie Mae's mortgage lien, provided that if the applicable jurisdiction's law as of that date referenced an exception for Fannie Mae's requirements, then no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien.
is located in any other jurisdiction,	no more than six months of regular common expense assessments may have priority over Fannie Mae's mortgage lien, even if applicable law provides for a longer priority period.

Notwithstanding any provisions to the contrary in the Guide, which do not require the lender to represent or warrant compliance with Fannie Mae project legal document requirements, the condo or PUD project legal documents must evidence compliance with the above priority of common expense assessment requirements.

## Delivery Requirements

When delivering a loan for a unit located in a project, the lender must provide the Project Type Code and any applicable special feature codes as shown in the following table. The lender must also report all other applicable special feature code(s), including those specified in a variance in the Lender Contract and in the [Special Feature Codes](#) document on Fannie Mae's website.

Project Type Code	Description
E	Established PUD project
F	New PUD project

<b>Project Type Code</b>	<b>Description</b>
P	Limited Review—New condo project
Q	Limited Review—Established condo project
R	Full Review—New condo project
S	Full Review—Established condo project
T	Fannie Mae-approved condo or PUD project, including those approved through PERS
U	FHA-approved condo project
V	Condo project review waived - for certain project and transaction types
1	Full Review—Co-op project
2	Fannie Mae-approved co-op project, including those approved through PERS
<b>Special Feature Code</b>	<b>Description</b>
588	Detached Condominium Unit Used to identify detached units in an attached or detached condominium project
296	Project Eligibility Waiver Used to identify loans for which Fannie Mae has provided a loan-level waiver for a specific project eligibility requirement

### **CPM ID Delivery Requirements**

Lenders are required to deliver the CPM ID number in the field for "FNM Condominium Project Manager Project Identifier" (Sort ID 39) in ULDD for the following projects:

- projects that require the use of CPM; and
- projects with a Fannie Mae Approval that are delivered as Type T, or Type 2 co-ops.

Lenders are encouraged to include the condo or co-op's HOA or Project IRS Federal Tax Identification Number

(TIN) in the loan file and in CPM.

## Expiration for Project Reviews

Project reviews must meet the following timeline requirements.

Project Review Process Employed	Expiration of Project Review
<ul style="list-style-type: none"> <li>• Limited Review</li> <li>• Full Review for Established Projects</li> </ul>	Must have been completed within one year prior to the note date
Full Review for New Projects	Must have been completed within 180 days prior to the note date
Approved by Fannie Mae as reflected in CPM	Must be valid (unexpired) as of the note date
Approved by FHA	Must be valid (unexpired) as of the note date

Loans must be delivered to Fannie Mae within 120 days following the note date. When the elapsed time between note date and delivery date exceeds this limit, the lender may deliver the loan only if the project continues to meet Fannie Mae project eligibility requirements at the time of delivery.

Loans secured by units in a project that fails to meet Fannie Mae’s project eligibility requirements under the applicable review type as of the note date are eligible for delivery after the project comes into compliance with the eligibility requirements (provided all standard mortgage seasoning and other applicable requirements are met). For example, if a lender closes a loan in a new project for which the pre-sales are less than the pre-sale requirement, the lender may deliver the loan after the project’s pre-sales meet the Fannie Mae requirement (assuming the loan meets all other applicable requirements).

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2022-02</a>	March 02, 2022
<a href="#">Announcement SEL-2021-11</a>	December 15, 2021

Announcements	Issue Date
<a href="#">Announcement SEL-2021-03</a>	April 07, 2021
<a href="#">Announcement SEL-2021-02</a>	March 03, 2021
<a href="#">Announcement SEL-2020-07</a>	December 16, 2020
<a href="#">Announcement SEL-2020-04</a>	August 05, 2020
<a href="#">Announcement SEL-2020-03</a>	June 03, 2020
<a href="#">Announcement SEL-2019-07</a>	August 07, 2019
<a href="#">Announcement SEL-2019-06</a>	July 03, 2019

## B4-2.1-02, Waiver of Project Review (07/05/2023)

### Introduction

This topic contains information on the waiver of project reviews, including:

- [Transactions Eligible for a Waiver of Project Review](#)
- [Requirements that Apply When the Project Review is Waived](#)
- [Project Review Requirements for High LTV Refinance Loans](#)

### Transactions Eligible for a Waiver of Project Review

Fannie Mae does not require a thorough project review for the project types and transactions described in the following table.

Project or Transaction Type	Requirements
Detached condo unit	A detached condo is defined as any condo unit that is completely detached from other condo units in the project. The unit may share no adjoining walls, ceilings, floors, or other attached architectural elements (such as breezeways or garages) with any neighboring unit. A detached condo unit may be in a project consisting solely of detached units or in a development containing a mixture of attached and detached units. Site condos in which the unit owner owns the detached condo unit and the land upon which the unit is built are a type of detached condo. The waiver of project review applies for new and established projects.
Unit in a two- to four-unit condo project	Project review is waived for new and established condo projects that consist of no more than four units.
Unit in a PUD project	See <a href="#">B4-2.3-01, Eligibility Requirements for Units in PUD Projects</a> , for the requirements that apply.
Fannie Mae to Fannie Mae limited cash-out refinance	Project review is waived for units in condo projects for Fannie Mae-owned loans that are refinanced as a limited cash-out refinance with a maximum loan-to-value ratio of 80% (CLTV or HCLTV ratios may be higher). (The waiver is not applicable to units in co-op projects.)

**Exception to the waiver policy:** If the property is a manufactured home or the project contains any manufactured homes, such property or project is not eligible for a review waiver and must be reviewed based on the applicable manufactured home project review requirement.

## Requirements that Apply When the Project Review is Waived

The following requirements apply, in addition to those noted above, when a project review is waived:

- property eligibility requirements (described in *Chapter B2-3, Property Eligibility*);
- the project is not in Condo Project Manager (CPM) with a status of "Unavailable";
- the project is not a condo hotel or motel, houseboat project, or a timeshare or segmented ownership project (described in [B4-2.1-03, Ineligible Projects](#));
- priority of common expense assessments (described in [B4-2.1-01, General Information on Project Standards](#));



- when an appraisal of the property is obtained, it must meet all applicable appraisal requirements (described in [Chapter B4-1, Appraisal Requirements](#));
- insurance requirements (described in [Subpart B7, Insurance](#), as applicable); and
- there are no unaddressed critical repairs outstanding or projects with evacuation orders (described in [B4-2.1-03, Ineligible Projects](#)) if the loan is a Fannie Mae to Fannie Mae limited cash-out refinance.

## Project Review Requirements for High LTV Refinance Loans

Fannie Mae waives the project review requirements for high LTV refinance loans secured by units in a condo, co-op, or PUD project. See [B5-7-01, High LTV Refinance Loan and Borrower Eligibility](#) for the requirements.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-06</a>	July 05, 2023
<a href="#">Announcement SEL-2019-07</a>	August 07, 2019

## B4-2.1-03, Ineligible Projects (07/05/2023)

### Introduction

This topic contains information on ineligible projects and related criteria, including:

- [List of Ineligible Project Characteristics](#)
- [Projects that Operate as Hotels or Motels](#)
- [Projects Subject to Split Ownership Arrangements](#)
- [Projects that Contain Multi-Dwelling Unit Condos or Co-ops](#)
- [Projects with Property that is not Real Estate](#)
- [Projects that Operate as a Continuing Care Community or Facility](#)
- [Non-Incidental Business Arrangements](#)
- [Commercial Space and Mixed-Use Allocation](#)
- [Recreational Leases and Mandatory Memberships](#)
- [Live-Work Projects](#)
- [Litigation or Pre-litigation Activity](#)
- [Single-Entity Ownership](#)
- [Projects in Need of Critical Repairs](#)

## List of Ineligible Project Characteristics

Fannie Mae will not purchase or securitize mortgage loans that are secured by units in certain condo or co-op projects if those projects have characteristics that make the project ineligible. Such characteristics are described in the table below, with additional details provided in the sections that follow. All eligible projects must be created and remain in full compliance with state law and all other applicable laws and regulations of the jurisdiction in which the project is located. Loans secured by units in projects with a status of "Unavailable" in Condo Project Manager (CPM) are ineligible for purchase by Fannie Mae.

**Note:** If a lender determines that a project does not meet all of Fannie Mae's project eligibility requirements but believes that the project has merit and warrants additional consideration, the lender may request an exception (see [B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers](#), for additional information).

Ineligible Project Characteristics	Condo Project Type	Co-op Project Type
Timeshare, fractional, or segmented ownership projects.	✓	✓
New projects where the seller is offering sale or financing structures in excess of Fannie Mae's eligibility policies for individual mortgage loans. These excessive structures include, but are not limited to, builder/developer contributions, sales concessions, HOA assessments, or principal and interest payment abatements, and/or contributions not disclosed on the settlement statement.	✓	✓
Any project that permits a priority lien for unpaid common expenses in excess of Fannie Mae's priority lien limitations. (See <a href="#">B4-2.1-01, General Information on Project Standards</a> for additional detail.)	✓	
Co-op projects that are subject to leasehold estates.		✓
Limited or shared equity co-ops that have not been approved by Fannie Mae through the PERS process, as required. These are projects in which the co-op corporation places a limit on the amount of return that can be received when stock or shares are sold.		✓

<b>Ineligible Project Characteristics</b>	<b>Condo Project Type</b>	<b>Co-op Project Type</b>
A tax-sheltered syndicate’s leasing to a co-op or “leasing” co-ops – projects that involve the leasing of the land and the improvements to the co-op corporation, even if the co-op corporation owns part of the building.		✓
Co-op projects in which the developer or sponsor has an ownership interest or other rights in the project real estate or facilities other than the interest or rights it has in relation to unsold units.		✓
Projects that are managed and operated as a hotel or motel, even though the units are individually owned. (See <i>Projects that Operate as Hotels or Motels</i> below for additional detail.)	✓	✓
Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower’s ability to utilize the property. (See <i>Projects Subject to Split Ownership Arrangements</i> below for additional detail.)	✓	✓
Multi-dwelling unit projects that permit an owner to hold title (or stock ownership and the accompanying occupancy rights) to more than one dwelling unit, with ownership of all of their owned units (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). (See <i>Projects that Contain Multi-Dwelling Unit Condos or Co-ops</i> below for additional detail.)	✓	✓
Projects with property that is not real estate, such as houseboat projects. (See <i>Projects with Property that is not Real Estate</i> below for additional detail.)	✓	✓
Any project that is owned or operated as a continuing care facility. (See <i>Projects that Operate as a Continuing Care Community or Facility</i> below for additional detail.)	✓	✓

Ineligible Project Characteristics	Condo Project Type	Co-op Project Type
<p>Projects with non-incidentual business operations owned or operated by the HOA including, but not limited to, a restaurant, spa, or health club. (See <i>Non-Incidental Business Arrangements</i> below for additional detail and exceptions to this policy.)</p>	✓	
<p>The total space that is used for nonresidential or commercial purposes may not exceed 35%. (See <i>Commercial Space and Mixed-Use Allocation</i> below for additional detail.)</p>	✓	✓
<p>Projects with mandatory upfront or periodic membership fees for the use of recreational amenities, such as country club facilities and golf courses, owned by an outside party (including the developer or builder). Membership fees paid for the use of recreational amenities owned exclusively by the HOA or master association are acceptable. (See <i>Recreational Leases and Mandatory Memberships</i> below for additional information.)</p>	✓	✓
<p>Projects that do not meet the requirements for live-work projects. (See <i>Live-Work Projects</i> below for additional detail.)</p>	✓	✓
<p>Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project. (See <i>Litigation or Pre-litigation Activity</i> below for additional detail.)</p>	✓	✓
<p>Projects in which a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:</p> <ul style="list-style-type: none"> <li>• projects with 5 to 20 units – 2 units</li> <li>• projects with 21 or more units – 20%</li> </ul> <p>(See <i>Single-Entity Ownership</i> below for additional detail.)</p>	✓	✓

<b>Ineligible Project Characteristics</b>	<b>Condo Project Type</b>	<b>Co-op Project Type</b>
Projects in need of critical repairs, including material deficiencies and significant deferred maintenance. (See <i>Projects in Need of Critical Repairs</i> below for additional detail.)	✓	✓

## Projects that Operate as Hotels or Motels

A project may not be operated or managed as a hotel, motel, or similar commercial entity as evidenced by meeting one or more of the following criteria:

- The HOA is licensed as a hotel, motel, resort, or hospitality entity.
- The HOA or project’s legal documents restrict owners’ ability to occupy the unit during any part of the year.
- The HOA or project’s legal documents require owners to make their unit available for rental pooling (daily or otherwise).
- The HOA or the project’s legal documents require unit owners to share profits from the rental of units with the HOA, management company, or resort, or hotel rental company.

In addition to the requirements above, any project with one or more of the following characteristics is ineligible. The project

- is primarily transient in nature;
- offers hotel type services (including those offered by or contracted through the HOA or management company) or characteristics such as registration services, rentals of units on a daily or short-term basis, daily cleaning services, central telephone service, central key systems and restrictions on interior decorating;
- is a conversion of a hotel (or a conversion of a similar type of transient housing) unless the project was a gut rehabilitation and the resulting condo units no longer have the characteristics of a hotel or similar type of transient housing building;
- is subject to voluntary rental-pooling, revenue, profit or commission sharing agreements with the HOA or management company, or similar agreements that restrict the unit owner’s ability to occupy the unit such as blackout dates and occupancy limits to assure an inventory of units for rent on a frequent basis. This may include daily, weekly, monthly or seasonal restrictions;
- is professionally managed by a hotel or resort management company that also facilitates short term rentals for unit owners or projects with management companies that are licensed as a hotel, motel, resort, or hospitality entity;
- is deemed to be ineligible under Freddie Mac’s requirements because of condo hotel, resort, transient or

short-term rental activity;

- has a legal or common name that contains hotel, motel, or resort, unless the use of hotel, motel, or resort is a reference to a historical use of the building and not reflective of its current use as a residential condo or co-op project;
- is marketed as a hotel, motel, resort or investment opportunity; or
- has obtained a hotel or resort rating for its hotel, motel, or resort operations through hotel ratings providers including, but not limited to, travel agencies, hotel booking websites, and internet search engines.

The following criteria are examples of some common red flags. The lender should perform additional due diligence of the project when any of these characteristics are present:

- 75% or more of the units are owned as investment and second home occupancy - especially when the loan transaction is not a principal residence transaction;
- units that do not contain full-sized kitchen appliances;
- advertisements for daily or short-term rental rates;
- franchise agreements;
- location of the project in a resort area;
- units that are less than 400 square feet;
- amenities that are common in hotels or resorts including spa services, concierge services, rentals of recreational equipment or amenities, childcare services for short-term renters, scheduled social or entertainment activities for short-term renters, airport shuttles, ski lift shuttles or ski lift and trail passes, or other vacation amenities and packages; or
- interior doors that adjoin different units.

## Projects Subject to Split Ownership Arrangements

Projects with covenants, conditions, and restrictions that split ownership of the property or curtail an individual borrower's ability to utilize the property are not eligible for delivery to Fannie Mae. These types of properties include, but are not limited to, the following:

- "common interest" apartments or community apartment projects that are projects or buildings owned by several owners as tenants-in-common or by an association in which individuals have an undivided interest in a residential apartment building and land, and have the right of exclusive occupancy of a specific apartment in the building;
- projects that restrict the owner's ability to occupy the unit, even if the project is not being operated as a motel or hotel; and
- projects with mandatory rental pooling agreements that require unit owners to either rent their units or give a management firm control over the occupancy of the units.
  - These are formal agreements between the developer, association, and/or the individual unit owners that obligate the unit owner to rent the property on a seasonal, monthly, weekly, or daily basis. In many cases, the agreements include blackout dates, continuous occupancy limitations,

and other such use restrictions. In return, the unit owner receives a share of the revenue generated from the rental of the unit.

## Projects that Contain Multi-Dwelling Unit Condos or Co-ops

Projects that contain multi-dwelling units are not permitted. These projects allow an owner to hold title (or share ownership and the accompanying occupancy rights) to a single legal unit that is sub-divided into multiple residential dwellings within the single legal unit, with ownership of the unit (or shares) evidenced by a single deed and financed by a single mortgage (or share loan). The sub-divided units are not separate legal units. This restriction applies regardless if the unit owner maintains one or more of the sub-divided units as rental units or uses one or more of the sub-divided units as accessory or lock-out units.

This provision does not apply to condo or co-op projects that allow an individual to buy two or more individual legal units with the intent of structurally and legally combining the units for occupancy as a single-unit dwelling. Mortgages secured by units in these types of projects are eligible for purchase and securitization by Fannie Mae provided all of the following requirements are met:

- The unit securing the mortgage represents a single legal unit under a single deed.
- Any construction or renovation to structurally combine units has no material impact on the structural or mechanical integrity of the project's buildings or the subject property unit.
- The individual units must be fully described in the legal description in the mortgage and under a single deed.
- The project's legal documents must have been amended to reclassify the combined units as a single unit in the project.
- All structural renovation to physically combine the units must be completed.

A condo or co-op unit with an accessory unit may be eligible on a case-by-case basis with a Fannie Mae PERS Project Approval or a loan-level project eligibility waiver. See [B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers](#), for additional information on submitting an exception request.

## Projects with Property that is not Real Estate

Fannie Mae acquires mortgage loans secured by real estate. Houseboats, boat slips, cabanas, timeshares, and other forms of property that are not real estate are not eligible for delivery to Fannie Mae. The marketability and value of individual units in a project may be adversely impacted by the inclusion of non-real estate property such as houseboats, timeshares, and other forms and structures that are not real estate. As such, projects containing these other non-real estate forms of property are not eligible.

Boat slips, cabanas, and other amenities are permitted when owned in common by the unit owners as part of the HOA.

## Projects that Operate as a Continuing Care Community or Facility

Mortgages secured by units in a project that operates, either wholly or partially, as a continuing care community

are ineligible for delivery to Fannie Mae. These communities or facilities are residential projects designed to meet specialized health and housing needs and typically require residents to enter into a lifetime contract with the facility to meet all future health, housing, or care needs. These communities may also be known by other names such as life-care facilities.

Projects that make continuing care services available to residents are eligible only if the continuing care facilities or services are not owned or operated by the HOA and residential unit owners are not obligated to purchase or utilize the services through a mandatory membership, contract, or other arrangement.

Continuing care communities are not the same as age-restricted projects. Age-restricted projects that restrict the age of residents but do not require residents to enter into a long-term or lifetime contract for healthcare and housing as the residents age are eligible.

## Non-Incidental Business Arrangements

A condo project is ineligible if the HOA is receiving more than 10% of its budgeted income from non-incidental business arrangements related to the active ownership and/or operation of amenities or services available to unit owners and the general public. This includes, but is not limited to, businesses such as a restaurant or other food- and beverage-related services, health clubs, and spa services.

Non-incidental income from the following sources is permitted provided the income does not exceed 15% of the project's budgeted income:

- income from the use of recreational amenities or services owned by the HOA for the exclusive use by unit owners in the project or leased to another project according to a shared amenities agreement (as noted below), or
- income from the leasing of units in the project acquired by the HOA through foreclosure.

The single-entity ownership limits (described above) will apply to the number of units owned and rented by the HOA.

## Commercial Space and Mixed-Use Allocation

Fannie Mae requires that no more than 35% of a condo or co-op project or 35% of the building in which the project is located be commercial space or allocated to mixed-use. This includes commercial space that is above and below grade. Note that projects located in Special Flood Hazard Areas with commercial space greater than 25% of the project's square footage, including any commercial parking facilities, may need supplemental or private flood insurance policies to meet Fannie Mae's requirements for flood insurance. Coverage under the National Flood Insurance Program may provide inadequate coverage for projects with commercial space in excess of 25%. See [B7-3-06, Flood Insurance Requirements for All Property Types](#) for additional information.

Any commercial space in the project or in the building in which the residential project is located must be compatible with the overall residential nature of the project.

**Note:** Rental apartments and hotels located within the project must be classified as commercial space even though these may be considered "residential" in nature. Commercial parking facilities can be excluded from the commercial space calculation.



**Calculation of Commercial Space.** Commercial space allocation is calculated by dividing the total non-residential square footage by the total square footage of the project or building. Lenders are responsible for determining the total square footage of the project, the square footage of the non-residential space, and the residential space square footage. This calculation includes the total square footage of commercial space even if the residential and commercial owners are represented by separate associations.

Non-residential square footage includes:

- retail and commercial space, and
- space that is non-residential in nature and owned by a private individual or entity outside of the HOA structure.

Examples include, but are not limited to:

- rental apartments,
- hotels,
- restaurants, and
- private membership-based fitness facilities.

Non-residential square footage excludes amenities that are:

- residential in nature;
- designated for the exclusive use of the residential unit owners (such as, but not limited to, a fitness facility, pool, community room, and laundry facility); and
- owned by the unit owners or the HOA.

The following table shows which commercial or mixed-use space must be included in the calculation of the percentage of commercial space.

If the commercial or mixed-use space is...	Then its square footage is included in the calculation of commercial space percentage
owned, controlled, or operated by the subject property’s HOA that is unrelated to the project-specific amenities offered for the exclusive use and enjoyment by the HOA members	Yes
owned by the subject property’s HOA but controlled or operated by a separate private entity <b>Example:</b> Office space owned by the HOA but leased to a private business.	Yes

If the commercial or mixed-use space is...	Then its square footage is included in the calculation of commercial space percentage
<p>owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA AND the commercial space is co-located in the project's building(s) that contain(s) the residential units</p>	<p>Yes</p>
<p>owned, controlled, or operated by a private entity that is co-located in the building(s) that contain(s) the project's residential units</p> <p><b>Example:</b></p> <ul style="list-style-type: none"> <li>• floors 1 to 4 consist of hotel and retail,</li> <li>• floors 5 to 7 consist of privately-owned and -managed rental apartments, and</li> <li>• the remaining floors consist of the condo project units.</li> </ul>	<p>Yes</p>
<p>owned, controlled, or operated by a private entity that is NOT co-located in the building(s) or common elements as declared in the project legal documents that contain(s) the project's residential units</p>	<p>No</p>
<p>owned and controlled by a project HOA other than the subject property's HOA that shares the same master HOA with the subject property's HOA BUT the commercial space is located in a building that is separate from the building(s) containing the project's residential units</p>	<p>No</p>

## Recreational Leases and Mandatory Memberships

Loans securing units in condo and co-op projects with mandatory memberships that require the HOA or co-op members to pay dues to a third-party organization (such as a golf course or other recreational facility) are ineligible for sale to Fannie Mae. The project must be the sole owner of its amenities, though certain exceptions will be allowed when there is a shared amenities agreement between HOAs or co-op projects.

Projects subject to recreational leases are also not eligible. A recreational lease is a long-term lease between the HOA and a third party for access to certain recreational facilities for a specified time period and payment. In these scenarios, the owner of the facilities is often the project's developer or has some financial relationship to the developer and the leases often provide ongoing profit to this party for the duration of the lease. The lease may permit the owner of the facilities to lease the amenities to other parties in addition to the HOA or co-op. The HOA or co-op may have certain financial, insurance, and other legal obligations under the lease that may be burdensome over time. These leases may or may not provide the project long-term access to the amenities

beyond the initial lease term.

When an HOA is part of a master association, the lender is required to evaluate whether the subject property's HOA members are required to participate in a mandatory membership that is managed through the master association. Additionally, the master association may not be subject to recreational leases as described above.

Lenders are encouraged to review the project's legal documents, sales contract, and budget to identify mandatory memberships and recreational leases. Some red flags that a project may require a mandatory membership, or be a party to a recreational lease, is that the amenities may have some of the following characteristics:

- the amenities have a different name from the residential project and may be recognized as a different legal entity from the HOA,
- owners are required to pay large up-front fees to become a member or have access to the amenities,
- owners are required to pay monthly or periodic dues to the entity that owns or operates the amenities (these dues may be paid directly to the owner or operator or they may be paid to the HOA and passed through to the owner or operator),
- the general public may be able to purchase memberships or access passes for the use of the amenities,
- the amenities can be leased or rented to the public for events not hosted by the HOA or its members, or
- HOA members may be subject to block-out dates or other use restrictions.

## Live-Work Projects

Live-work projects are projects that permit individual residential unit owners to operate and run a small business from their residential unit. Units in projects that permit live-work arrangements are eligible for sale to Fannie Mae provided the project complies with all applicable local zoning, program, or statutory requirements for live-work projects and the nature of the project is primarily residential.

## Litigation or Pre-litigation Activity

Projects in which the HOA or co-op corporation is named as a party to pending litigation, or for which the project sponsor or developer is named as a party to pending litigation that relates to the safety, structural soundness, habitability, or functional use of the project are ineligible for sale to Fannie Mae.

If a lender discovers that a project is engaging in pre-litigation activities (such as, but not limited to, arbitration or mediation) that are reasonably expected to proceed to formal litigation; the lender must apply Fannie Mae's litigation policies. Whether the legal action is resolved through arbitration, mediation, or it proceeds to litigation, there is risk that the project is exposed to material financial hardship related to the matters addressed in the complaint.

If the lender determines that pending litigation involves minor matters with no impact on the safety, structural soundness, habitability, or functional use of the project, the project is eligible provided the litigation meets one or more of the following:

- non-monetary litigation including, but not limited to neighbor disputes or rights of quiet enjoyment;

- litigation for which the insurance carrier has agreed to provide the defense, and the amount is covered by the HOA's or co-op corporation's insurance;
- the HOA or co-op corporation is the plaintiff in the litigation and upon investigation and analysis the lender has reasonably determined the matter is minor and will result in an insignificant impact to the financial stability of the project;
- the reasonably anticipated or known damages and legal expenses are not expected to exceed 10% of the project's funded reserves;
- the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced and there is no anticipated material adverse impact to the HOA or co-op corporation if funds are not recovered;
- litigation concerning localized damage to a unit in the project that does not impact the overall safety, structural soundness, habitability, or functional use of the project; or
- the HOA or co-op corporation is named as the plaintiff in a foreclosure action, or as a plaintiff in an action for past due HOA or co-op assessments.

Litigation that involves personal injury or death does not meet Fannie Mae's criteria for minor litigation unless

- the claim amount is reasonably anticipated or known,
- the insurance carrier has agreed to provide the defense, and
- the reasonably anticipated or known damages are covered by the HOA's or co-op corporation's insurance.

Construction defect litigation in which the HOA or co-op corporation is the plaintiff are not considered a minor matter unless the HOA or co-op corporation is seeking recovery of funds for issues that have already been remediated, repaired, or replaced. In addition, there is no anticipated material adverse impact to the HOA or co-op if the funds are not recovered.

The lender must obtain documentation to support its analysis that the litigation meets Fannie Mae's criteria for minor litigation as described above.

## Single-Entity Ownership

A project meets the definition of single-entity ownership when a single entity (the same individual, investor group, partnership, or corporation) owns more than the following total number of units in the project:

- projects with 5 to 20 units - 2 units
- projects with 21 or more units - 20%

Units currently subject to any rental or lease arrangement must be included in the calculation. This includes lease arrangements containing provisions for the future purchase of units such as lease-purchase and rent-to-own arrangements.

The following may be excluded from the single-entity ownership calculation:

- units that are owned by the project sponsor or developer and are vacant and being actively marketed for sale; or

- units that are controlled or owned by a non-profit entity for the purpose of providing affordable housing, units held in affordable housing programs (including units subject to non-eviction rent regulation codes), or units held by higher-education institutions for a workforce housing program.

The single-entity ownership requirement may be waived when the transaction is a purchase transaction that will result in a reduction of the single-entity ownership concentration. In such instances, the following requirements must be met:

- units owned by the single entity represent no more than 49% of the units;
- evidence is required that the single entity is marketing units for sale to further reduce single-entity ownership, with the goal of reducing the concentration to 20% or less of the project units;
- the single entity is current on all HOA assessments; and
- there are no pending or active special assessments in the project.

## Projects in Need of Critical Repairs

Projects in need of critical repairs are those needing repairs or replacements that significantly impact the safety, soundness, structural integrity or habitability of the project's building(s), or the financial viability or marketability of the project. Critical repairs include conditions such as:

- material deficiencies, which if left uncorrected, have the potential to result in or contribute to critical element or system failure within one year;
- any mold, water intrusions or potentially damaging leaks to the project's building(s);
- advanced physical deterioration;
- any project that failed to pass state, county, or other jurisdictional mandatory inspections or certifications specific to structural safety, soundness, and habitability; or
- any unfunded repairs costing more than \$10,000 per unit that should be undertaken within the next 12 months (does not include repairs made by the unit owner or repairs funded through a special assessment).

Examples of some items to consider include, but are not limited to, sea walls, elevators, waterproofing, stairwells, balconies, foundation, electrical systems, parking structures or other load-bearing structures.

If damage or deferred maintenance is isolated to one or a few units and does not affect the overall safety, soundness, structural integrity, or habitability of the project, then these requirements do not apply.

Routine repairs are not considered to be critical and include work that is:

- preventative in nature or part of normal capital replacements (for example, focused on keeping the project fully functioning and serviceable); and
- accomplished within the project's normal operating budget or through special assessments that are within guidelines.

A project with an evacuation order due to an unsafe condition, either for a partial or total evacuation of the project's building(s), is ineligible until the unsafe condition has been remediated and the building(s) is deemed safe for occupancy.

### Special Assessments

Special assessments may be current or planned. Lenders must obtain and review the following information for each special assessment to determine if it addresses a critical repair:

- what is the purpose of the special assessment,
- when was the special assessment approved and is it planned (approved by the unit owners, but not yet initiated by the board) or already being executed,
- what was the original amount of the special assessment and the remaining amount to be collected, and
- when is the expected date the special assessment will be paid in full.

If the special assessment is associated with a critical repair and the issue is not remediated, the project is ineligible.

### Inspection Reports

If a structural and/or mechanical inspection was completed within 3 years of the lender's project review date, the lender must obtain and review the inspection report. The report cannot indicate that any critical repairs are needed, no evacuation orders are in effect, and no regulatory actions are required.

If the inspection report indicates there are unaddressed critical repairs, the project is ineligible until the required repairs have been completed and documented accordingly. The lender must review an engineer's report or substantially similar document to determine if the repairs completed have resolved the safety, soundness, structural integrity, or habitability concerns of the project.

### Documentation

Lenders may need to review a combination of documents to determine if a project meets Fannie Mae's physical condition requirements. Lenders are responsible for determining which documents are needed to ensure compliance with the requirements of this Guide. Some examples of this documentation include, but are not limited to:

- HOA board meeting minutes,
- engineer report(s),
- structural and/or mechanical inspection reports,
- reserve studies,
- a list of necessary repairs provided by the HOA or the project's management company,
- a list of special assessments provided by the HOA or the project's management company, and
- other substantially similar documentation.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-06</a>	July 05, 2023
<a href="#">Announcement SEL-2020-06</a>	October 07, 2020

Announcements	Issue Date
<a href="#">Announcement SEL-2018-05</a>	June 05, 2018
<a href="#">Announcement SEL-2018-01</a>	January 30, 2018

## B4-2.1-04, Environmental Hazard Assessments (06/03/2020)

### Introduction

This topic contains information on environmental hazard assessments, including:

- [Overview](#)
- [Types of Environmental Hazard Assessments](#)
- [Acceptability of Consultants](#)
- [Phase I Environmental Hazard Assessment](#)
- [Phase II Environmental Hazard Assessment Description](#)
- [Who Should Complete the Phase II Environmental Hazard Assessment](#)
- [Phase II Environmental Hazard Assessment Report Forms and Requirements](#)
- [Kinds of Testing or Sampling Under Phase II Environmental Hazard Assessments](#)
- [Results of an Environmental Hazard Assessment](#)

### Overview

An environmental hazard assessment is required for condo and co-op projects if an environmental problem is identified by the lender through performance of its project underwriting or due diligence. If environmental problems are identified, the problems must be determined to be acceptable. Lenders should keep a copy of this assessment in the project review file.

### Types of Environmental Hazard Assessments

The table below describes two types of environmental hazard assessments.

Type	Performed by	Description
Phase I assessment (see <a href="#">E-2-02, Suggested Format for Phase I Environmental Hazard Assessments</a> )	the lender or by someone employed by the lender	gathers information from various sources to evaluate the environmental soundness of the project.
Phase II assessment	a qualified environmental consultant	when required <ul style="list-style-type: none"> <li>• Phase I assessment identifies problems or</li> <li>• Phase I assessment is inconclusive with regard to any particular hazard.</li> </ul>

## Acceptability of Consultants

Fannie Mae reserves the right to notify lenders that a particular consultant is no longer acceptable. Fannie Mae also reserves the right to refuse to accept, at any time, any future environmental assessment, report, warranty, or certification from individual consultants, specific consulting firms, or specific branch offices of consulting firms.

## Phase I Environmental Hazard Assessment

A Phase I assessment enables lenders to quickly determine whether adequate information exists to evaluate the environmental status of a property. A Phase I assessment is principally a screening process that focuses on reviewing the available documentation, interviewing people who are knowledgeable about the site operations, and inspecting the site, the building, and adjoining properties. Fannie Mae does not require a specific form for a Phase I assessment.

Any report that is thorough and professionally prepared will be acceptable. For a suggested format, see [E-2-02, Suggested Format for Phase I Environmental Hazard Assessments](#).

## Phase II Environmental Hazard Assessment Description

A Phase II assessment provides a more detailed review of the site. It includes specific physical sampling for each hazard that was not acceptable under the Phase I assessment, as well as a review of historical records. It determines the presence or absence of specific environmental liabilities (such as asbestos or leaking underground storage tanks) or quantifies the extent of an observed or suspected environmental liability (such as soil or groundwater contamination).

## Who Should Complete the Phase II Environmental Hazard Assessment



The specialized nature of the investigations conducted under a Phase II assessment requires the knowledge and experience of a qualified consultant.

Lenders must use care in choosing firms to perform environmental hazard assessments. Lenders should confirm that the consultant it plans to use is not affiliated with the buyer or seller of the property or a firm engaged in a business that might present a conflict of interest. Lenders should also evaluate whether the consulting firm’s personnel have adequate and appropriate education and training to carry out the required duties.

## Phase II Environmental Hazard Assessment Report Forms and Requirements

Fannie Mae does not specify an exact format for the consultant’s report. Any report that is thorough and professionally prepared will be acceptable.

The table below provides the requirements for the Phase II Environmental Assessment Report.

✓	<b>The consultant’s report for a Phase II environmental hazard assessment report must</b>
	include a full description of the sampling procedures
	include the laboratory results
	include the consultant’s recommendations
	follow all regulatory standards and good management practices at all times, especially when physical sampling and laboratory analysis are involved
	include a certification in the report that: <ul style="list-style-type: none"> <li>• the assessment was performed diligently and in accordance with all regulatory and good management standards; and</li> <li>• to the best of the consultant’s knowledge, the results are complete and accurate</li> </ul>
	include the signature of an officer of the consulting firm that conducted the work

## Kinds of Testing or Sampling Under Phase II Environmental Hazard Assessments

Examples of the kind of testing or sampling that occur under a Phase II assessment include but are not limited to the following:

- investigating the status of any enforcement actions related to neighboring properties under the Superfund or Resource, Conservation, and Recovery Acts;
- testing for underground storage leaks;

- sampling and analyzing the soil;
- sampling and analyzing the groundwater;
- testing soil or facilities that are suspected as being contaminated by polychlorinated biphenyls; and
- sampling and analyzing bulk asbestos and developing related abatement and maintenance programs, if necessary.

## Results of an Environmental Hazard Assessment

Lenders must evaluate the results of the assessment and determine if the conditions are acceptable to be remediated. Refer to [B4-2.1-05, Unacceptable Environmental Hazards](#) and [B4-2.1-06, Remedial Actions for Environmental Hazard Assessments Below Standards](#).

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2020-03</a>	June 03, 2020

## B4-2.1-05, Unacceptable Environmental Hazards (06/03/2020)

### Introduction

This topic contains information on unacceptable environmental hazards, including:

- [Overview](#)
- [Unacceptable Environmental Hazards](#)

### Overview

The existence of one or more unacceptable environmental hazards generally will result in a project being ineligible. In addition, some properties that fail to meet a particular standard may be corrected through remedial action. See [B4-2.1-06, Remedial Actions for Environmental Hazard Assessments Below Standards](#).

## Unacceptable Environmental Hazards

The table below describes examples of unacceptable environmental hazards; however, this list is not exhaustive.

✓	<b>Examples of Unacceptable Environmental Hazards</b>
	a property that is (or has been) used as a landfill or other solid, hazardous, or municipal waste disposal site
	a property that is (or has been) used for activity related to the storage of oil, hazardous waste, or other toxic substances—except that the property may have been used for the storage of small quantities of hazardous substances that are generally recognized as appropriate for residential uses and maintenance of the property
	a property that is the subject of outstanding environmental or public health litigation or administrative action from private parties or public officials
	a high-risk neighboring property that has evidence of hazardous waste spills or soil or groundwater contamination on or around its site
	a property that has documented soil or groundwater contamination and/or a documented tank leak that is leaking at more than 0.05 gallons per hour (which is the National Fire Protection Association’s standard)
	<p>a property with soil sampling that has values for metal in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> <li>• chromium: 100 ppm</li> <li>• arsenic: 20 ppm</li> <li>• zinc: 350 ppm</li> <li>• cadmium: 3 ppm</li> <li>• lead: 100 ppm</li> <li>• nickel: 100 ppm</li> <li>• copper: 170 ppm</li> <li>• selenium: 20 ppm</li> </ul>
	a property that is contaminated from polychlorinated biphenyls (PCBs)

✓	<b>Examples of Unacceptable Environmental Hazards</b>
	<p>a property with soil sampling that has values for other organic materials in excess of the following concentration limits in parts per million (ppm):</p> <ul style="list-style-type: none"> <li>• total volatile organics: 1 ppm</li> <li>• total hydrocarbons: 100 ppm</li> <li>• total petroleum hydrocarbons: 100 ppm</li> </ul>
	<p>a property with groundwater sampling that has values for other organic materials in excess of the following concentration limits in parts per million:</p> <ul style="list-style-type: none"> <li>• total organics (volatiles and base neutrals): 0.10 ppm</li> <li>• total petroleum hydrocarbons: 1.00 ppm</li> </ul>
	<p>a property with groundwater sampling that has values for metals in excess of the following concentration limits in parts per million:</p> <ul style="list-style-type: none"> <li>• arsenic: 0.05 ppm</li> <li>• lead: 0.05 ppm</li> <li>• boron: 1.00 ppm</li> <li>• mercury: 0.002 ppm</li> <li>• cadmium: 0.01 ppm</li> <li>• selenium: 0.01 ppm</li> <li>• chromium: 0.05 ppm</li> <li>• silver: 0.05 ppm</li> </ul>
	<p>a property with high radon levels (e.g., above four picocuries per liter) that can be corrected only through large capital improvements or extensive ongoing maintenance programs that are beyond the financial or technical abilities of the HOA or co-op corporation for the project</p>
	<p>a property that has conditions representing material violations of applicable local, state, or federal environmental or public health statutes and laws</p>
	<p>a property that is contaminated by friable asbestos-containing materials</p>

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2020-03</a>	June 03, 2020

## B4-2.1-06, Remedial Actions for Environmental Hazard Assessments Below Standards (06/03/2020)

### Introduction

This topic contains information on remedial actions for environmental hazard assessments that are below standards, including:

- [Background](#)
- [Remedial Actions for Environmental Hazard Assessments Below Standards](#)
- [“No Further Action” Notices](#)

### Background

When an environmental hazard has been fully remediated, the hazard no longer poses any risks for future use of the land or structures or the need for ongoing activities to ensure human health and safety. Some hazards result in ongoing risks that require continual mitigation strategies to minimize potential harm. The environmental hazard is considered mitigated when those strategies sufficiently minimize the current and future risks to human health and safety.

If the hazard will never be fully remediated but the impacts have been sufficiently mitigated to satisfy applicable regulatory standards, the site may be deemed suitable and safe for residential use. The lender has the delegation to review the environmental hazard and its mitigation plan to determine if the project meets Fannie Mae’s requirements.

### Remedial Actions for Environmental Hazard Assessments Below Standards

Properties that fail to meet a particular standard may be corrected through remedial actions and then retested. Remedial actions must be undertaken with the advice and written endorsement of a qualified environmental consultant. All remedial actions must be taken in accordance with all regulatory and good management standards.

Typically, lenders must confirm the completion and effectiveness of remedial actions based on the following

conditions:

- A qualified environmental consultant states in writing that remedial work needed to make the property eligible under the environmental standards can be completed within 90 days.
- The project’s developer or sponsor signs a contract with a qualified firm to perform the remedial work within 90 days.

The lender must warrant that the job has been satisfactorily completed and the property meets Fannie Mae’s environmental eligibility standards.

If the property is not remediated at the time of project approval, the project developer or sponsor must provide a performance escrow equal to 150% of the gross contract amount to ensure the completion of the remedial work. Loans securing units in the project cannot be sold to Fannie Mae before completion of the remediation.

## “No Further Action” Notices

Some jurisdictions or government agencies will issue a “no further action” notice (or letter) to alert the public that all available remediation steps for an environment hazard have been completed. A “no further action” status for a specific environmental hazard may indicate that

- the hazard has been fully remediated and the site is suitable for residential development,
- all applicable remediation actions have been taken but the site is not suitable for any type of development, or
- other variations between these two opposing outcomes.

Due to the variation of what a “no further action” status means, lenders cannot rely solely on that status to determine if the environmental hazard has been sufficiently resolved. For the project to meet Fannie Mae’s requirements, lenders must determine if the specific “no further action” condition has been sufficiently resolved.

Lenders must follow Fannie Mae’s appraisal and notification requirements for environmental hazards in [B4-1.4-08, Environmental Hazards Appraisal Requirements](#), any time the subject property is impacted by an environmental hazard.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2020-03</a>	June 03, 2020

## Section B4-2.2, Project Eligibility

### B4-2.2-01, Limited Review Process (07/05/2023)

#### Introduction

This topic contains information on the Limited Review process performed by lenders, including:

- [Unit and Project Type Eligible for Limited Review](#)
- [Transactions Eligible for a Limited Review](#)
- [Limited Review Eligibility Requirements](#)

#### Unit and Project Type Eligible for Limited Review

To be eligible for a Limited Review, the unit securing the mortgage must be an attached unit in an established condo project.

#### Transactions Eligible for a Limited Review

The following table describes the transactions that are eligible for a Limited Review.

<b>Limited Review Eligible Transactions -Attached Units in Established Condo Projects (For Projects Outside of Florida)</b>	
<b>Occupancy Type</b>	<b>Maximum LTV, CLTV, and HCLTV Ratios</b>
Principal residence	90%
Second home	75%
Investment property	75%

Attached units in established projects located in Florida are subject to more restrictive LTV ratio requirements under the Limited Review process. See [B4-2.2-04, Geographic-Specific Condo Project Considerations](#), for additional information.

## Limited Review Eligibility Requirements

In completing a Limited Review, the lender must ensure that the project and subject unit meet the eligibility requirements described in the following table.

✓	<b>Limited Review Eligibility Requirements</b>
	The project meets <i>Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project</i> described in <a href="#">B4-2.1-01, General Information on Project Standards</a> .
	The project is not an ineligible project. (See <a href="#">B4-2.1-03, Ineligible Projects</a> ).
	The project does not consist of manufactured homes. <b>Note:</b> Manufactured housing projects require a Fannie Mae PERS review or a Full Review.
	No more than 15% of the total number of units in the project are 60 days or more past due in the payment of each special assessment.

These requirements apply to both DU loan casefiles and manually underwritten loans.

If the project and loan transaction are eligible for and meet all of the eligibility requirements of the Limited Review process, the lender is not required to validate that the project also meets the eligibility requirements of another project review type. However, if the LTV, CLTV, or HCLTV ratios exceed the limits above, or in the event the lender becomes aware of a circumstance that would cause the project or transaction to be ineligible under a Limited Review, the lender must use one of the other project review methods to determine project eligibility and the project must meet all of the eligibility requirements of that selected alternate project review type.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

<b>Announcements</b>	<b>Issue Date</b>
<a href="#">Announcement SEL-2023-06</a>	July 05, 2023



## B4-2.2-02, Full Review Process (07/05/2023)

### Introduction

This topic contains information on general eligibility requirements for the Full Review process, including:

- [Overview](#)
- [Unit and Project Types Eligible for Full Review](#)
- [Condo Project Manager \(CPM\)](#)
- [CPM Status Designations](#)
- [CPM Delivery Restrictions Notifications](#)
- [Additional Obligations of the Lender for Projects Approved by Fannie Mae](#)
- [Full Review Eligibility Requirements](#)
- [Additional Requirements - For Condo Projects Consisting of Manufactured Homes](#)
- [Replacement Reserve Studies](#)

### Overview

The Full Review process is a method for the review of new and established condo projects, co-op projects, and certain manufactured home projects. Lenders performing a Full Review must ensure that the project meets all applicable eligibility requirements.

### Unit and Project Types Eligible for Full Review

A Full Review may be performed when the unit securing the loan is an attached unit located in one of the following project types:

- an established condo project, or
- a new or newly converted condo project.

A Full Review may also be performed when the property securing the loan is a manufactured home in an established condo project that is not subject to a community land trust, deed restriction leasehold estate, or shared equity arrangement.

These projects may also be reviewed by Fannie Mae through the PERS process (see [B4-2.2-06, Project Eligibility Review Service \(PERS\)](#)).

Full Review requirements for units in co-op projects are addressed in [B4-2.3-02, Co-op Project Eligibility](#).

### Condo Project Manager (CPM)

Lenders must use CPM to assist in their Full Review of a condo project (except for projects containing

manufactured homes). CPM is a Web-based tool designed to facilitate the lender's review of the project to determine if it meets Fannie Mae's project eligibility requirements. The lender must document the loan file with the CPM decision by including the unexpired CPM Certification in the file.

CPM certifications are based solely on the data that the lender enters into CPM. The lender is responsible for reviewing the applicable project documentation to obtain the information needed to complete the project review and enter the data into CPM. The lender is also responsible for ensuring that all data entered into CPM is correct and that the project meets all applicable Fannie Mae eligibility requirements.

CPM is available on [Fannie Mae's website](#).

## CPM Status Designations

The table below describes the status designations that are available in CPM for each project.

<b>Status Designation</b>	<b>Definition</b>
Certified by Lender	Loans in the project are eligible for sale by the certifying lender prior to the expiration date.
Approved by Fannie Mae	Project has been approved by Fannie Mae, and loans may be sold with a valid and unexpired approval by any lender. This status may include projects approved through the PERS or other Fannie Mae approval processes.
Conditional Approval	Project has been approved by Fannie Mae through the PERS process subject to certain conditions being met. Loans in this project cannot be sold to Fannie Mae until an Approved by Fannie Mae status has been issued.
No Fannie Mae Review	Lender can certify the project or subject legal phase based on the <i>Selling Guide</i> requirements.
Unavailable	Project has been determined by Fannie Mae to be ineligible. Loans for units in this project cannot be sold to Fannie Mae.
Guide Ineligible	Based on information entered in CPM by the lender, loans in this project are not eligible for sale to Fannie Mae.

Status Designation	Definition
Incomplete Certification	Project has been entered into CPM, but the lender's certification process has not been completed. The required information must be entered into CPM for the lender to determine the project's eligibility.

## CPM Delivery Restrictions Notifications

Project transaction eligibility or other loan-level restrictions will display in CPM. When CPM displays a delivery restriction for a specific project, lenders may only sell loans that comply with the stated restrictions.

For example, loans in some projects may be limited to certain occupancy types (such as principal residences only, or principal residences and second homes) or there may be limits on the LTV ratios.

## Additional Obligations of the Lender for Projects Approved by Fannie Mae

If a lender becomes aware of any information that could impact the eligibility status reflected in CPM (such as, significant deferred maintenance or major litigation), the lender must notify the CPM Management team (see [E-1-02, List of Contacts](#)) with the relevant data and information. Fannie Mae will evaluate the new information and its impact on eligibility. Before selling a loan secured by a unit in such a project, the lender must confirm that the project retains its approved status. Notification must occur as soon as practicable but no later than five business days after becoming aware of such information.

Fannie Mae reserves the right to change a project eligibility status designation if information acquired after approval or certification has an impact on a previously issued eligibility determination.

**Note:** Lenders are responsible for verifying and documenting that the project meets the applicable insurance requirements described in *Chapters B7-3 and B7-4*. Fannie Mae does not review insurance policies as part of the review process.

## Full Review Eligibility Requirements

When determining the eligibility of a condo project on the basis of a Full Review, lenders must ensure the condo project meets the eligibility requirements described in the following table.

✓	<b>Full Review Eligibility Requirements</b>
	The project meets the <i>Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project</i> described in <a href="#">B4-2.1-01, General Information on Project Standards</a> .
	The project must not be an ineligible project as described in <a href="#">B4-2.1-03, Ineligible Projects</a> .
	<p>No more than 15% of the total units in a project are 60 days or more past due on common expense assessments (also known as HOA fees). For example, a 100-unit project may not have more than 15 units that are 60 days or more past due.</p> <p>This ratio is calculated by dividing the number of units with common expense assessments that are past due by 60 or more days by the total number of units in the project.</p>
	No more than 15% of the total units in a project are 60 days or more past due in the payment of each special assessment.

✓	<b>Full Review Eligibility Requirements</b>
	<p>Lenders must review the HOA projected budget to determine that it</p> <ul style="list-style-type: none"> <li>• is adequate (that is, it includes allocations for line items pertinent to the type of condo project), and</li> <li>• provides for the funding of replacement reserves for capital expenditures and deferred maintenance that is at least 10% of the budget.</li> </ul> <p>To determine whether the association has a minimum annual budgeted replacement reserve allocation of 10%, the lender must divide the annual budgeted replacement reserve allocation by the association’s annual budgeted assessment income (which includes regular common expense fees).</p> <p>The following types of income may be excluded from the reserve calculation:</p> <ul style="list-style-type: none"> <li>• incidental income on which the project does not rely for ongoing operations, maintenance, or capital improvements;</li> <li>• income collected for utilities that would typically be paid by individual unit owners, such as cable TV or Internet access;</li> <li>• income allocated to reserve accounts; and</li> <li>• special assessment income.</li> </ul> <p>The lender may use a reserve study in lieu of calculating the replacement reserve of 10% provided the following conditions are met:</p> <ul style="list-style-type: none"> <li>• the lender obtains a copy of an acceptable reserve study and retains the study and the lender’s analysis of the study in the project approval file,</li> <li>• the study demonstrates that the project has adequate funded reserves that provide financial protection for the project equivalent to Fannie Mae’s standard reserve requirements,</li> <li>• the study demonstrates that the project’s funded reserves meet or exceed the recommendations included in the reserve study, and</li> <li>• the study meets Fannie Mae’s requirements for replacement reserve studies listed at the end of this section.</li> </ul>
	<p>For projects in which the units are not separately metered for utilities, the lender must</p> <ul style="list-style-type: none"> <li>• determine that having multiple units on a single meter is common and customary in the local market where the project is located, and</li> <li>• confirm that the project budget includes adequate funding for utility payments.</li> </ul>
	<p>The project must be located on contiguous parcels of land. It is acceptable for a project to be divided by public or private streets.</p>
	<p>The structures within the project must be within a reasonable distance from each other.</p>

✓	<b>Full Review Eligibility Requirements</b>
	<p>Common elements and facilities, such as recreational facilities and parking, must be consistent with the nature of the project and competitive in the marketplace.</p>
	<p>Unit owners in the project must have the sole ownership interest in, and rights to the use of the project’s facilities, common elements, and limited common elements, except as noted below.</p> <p>Shared amenities are permitted only when two or more HOAs share amenities for the exclusive use of the unit owners. The associations must have an agreement in place governing the arrangement for shared amenities that includes the following:</p> <ul style="list-style-type: none"> <li>• a description of the shared amenities subject to the arrangement;</li> <li>• a description of the terms under which unit owners in the project may use the shared amenities;</li> <li>• provisions for the funding, management, and upkeep of the shared amenities; and</li> <li>• provisions to resolve conflicts between the associations over the amenities.</li> </ul> <p>Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.</p> <p>The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities—including parking and recreational facilities—may not be subject to a lease between the unit owners or the HOA and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.</p>
	<p>Fannie Mae permits the financing of a single or multiple parking space(s) with the mortgage provided that the parking space(s) and subject unit are included on one deed as evidenced on the legal description in the mortgage. In such cases, the LTV, CLTV, and HCLTV ratios are based on the combined value of the residential unit and the parking space(s).</p>
	<p>Phase I and II environmental hazard assessments are not required for condo projects unless the lender identifies an environmental problem through the performance of its project underwriting or due diligence.</p> <p>In the event that environmental problems are identified, the problems must be acceptable, as described in <a href="#">E-2-02, Suggested Format for Phase I Environmental Hazard Assessments</a>.</p>

✓	<b>Full Review Eligibility Requirements</b>
	<p>For investment property transactions in established projects at least 50% of the total units in the project must be conveyed to principal residence or second home purchasers. This requirement does not apply if the subject mortgage is for a principal residence or second home.</p> <p>Financial institution-owned REO units that are for sale (not rented) are considered owner-occupied when calculating the 50% owner-occupancy ratio requirement.</p>
	<p>If the project was a gut rehabilitation project, all rehabilitation work involved in a condo conversion must have been completed in a professional manner.</p> <p>“Gut rehabilitation” refers to the renovation of a property down to the shell of the structure, including the replacement of all HVAC and electrical components (unless the HVAC and electrical components are up to current code).</p> <p>For a conversion that was legally created during the past three years, the architect’s or engineer’s report (or functional equivalent), that was originally obtained for the conversion must comment favorably on the structural integrity of the project and the condition and remaining useful life of the major project components, such as the heating and cooling systems, plumbing, electrical systems, elevators, boilers, roof, etc.</p> <p><b>Note:</b> If the project is a newly converted non-gut rehabilitation project with more than four residential units, lenders must submit the project to Fannie Mae for review and approval. See <a href="#">B4-2.2-06, Project Eligibility Review Service (PERS)</a>, for additional information.</p>

## Additional Requirements - For Condo Projects Consisting of Manufactured Homes

When determining the eligibility of condo project consisting of manufactured homes on the basis of a Full Review, lenders must ensure the property and project meet the eligibility requirements described in the following table.

✓	<b>Additional Requirements for Condo Projects Consisting of Manufactured Home Units</b>
	<p>As described in <a href="#">B4-2.2-06, Project Eligibility Review Service (PERS)</a>, certain manufactured home projects must be submitted to PERS. Lenders must perform a pre-PERS submission review to confirm the project meets the Full Review and other requirements.</p>
	<p>The condo project must meet all Full Review requirements, as applicable.</p> <p>CPM should not be used to complete the Full Review because it does not contain all the requirements that apply to condo projects consisting of manufactured homes.</p>

✓	<b>Additional Requirements for Condo Projects Consisting of Manufactured Home Units</b>
	The project must not contain campgrounds or other facilities for transient or mobile units.
	The project legal documents must require a provision for land-lease “hold-out” units to be converted into the condo structure upon transfer, sale, or refinance of property. Land lease “hold-out” units are limited to 25% or less of the total units in the project. Land-lease hold-out units are units where the structure is owned by an individual, but the land is leased from the HOA or project sponsor. These units were not converted to condo ownership when the project converted to a condo regime.

## Replacement Reserve Studies

Reserve studies may be used to determine the appropriate level of reserves the HOA must maintain to ensure the project’s long-term success. Reserve studies will also provide useful information regarding the adequacy of the HOA’s current reserve funds and offer recommendations to meet funding goals in the event the HOA has under-reserved for its needs in the past. The lender may review the most current reserve study or a reserve study update provided it has been completed within three years of the date on which the lender approves the project.

Reserve studies must be prepared by an independent third party that has specific expertise in completing reserve studies. This expertise may include any of the following:

- a reserve study professional with reserve study credentials,
- a construction engineer,
- a certified public accountant who specializes in reserve studies, or
- any professional with demonstrated knowledge of and experience in completing reserve studies.

While Fannie Mae does not require that a standard format be used for the reserve study, the following items must be addressed:

- all major components and elements of the project’s common areas for which repair, maintenance, or replacement is expected;
- the condition and remaining useful life of each major component;
- an estimate of the cost of repair, replacement, restoration, or maintenance of major components;
- an estimate of the total annual contributions required to defray costs (minus the existing reserves funded for this purpose), including inflation;
- an analysis of existing funded reserves; and
- a suggested reserve funding plan.

**Note:** Individual states may have various statutes concerning the use and content of reserve studies. Fannie Mae requires that a reserve study used by the lender in its analysis meet or exceed



requirements set forth in relevant state statutes.

## Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-06</a>	July 05, 2023
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2022-02</a>	March 02, 2022

## B4-2.2-03, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects (06/05/2018)

### Introduction

This topic contains information on the Full Review of units in new and newly converted condo projects, including:

- [Additional Requirements for Units in New and Newly Converted Condo Projects](#)
- [Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects](#)

### Additional Requirements for Units in New and Newly Converted Condo Projects

When performing a Full Review of new or newly converted condo projects, lenders must ensure compliance with the following additional requirements.

**Note:** Projects consisting of units in new or newly converted projects in Florida must be reviewed by Fannie Mae through the PERS process. See [B4-2.2-04, Geographic-Specific Condo Project Considerations](#).

✓	<b>Full Review Requirements - For Units in New or Newly Converted Condo Projects</b>
	<p>The project, or the subject legal phase, must be “substantially complete” unless other completion arrangements have been approved by Fannie Mae through the PERS review process.</p> <p>There may not be more than one legal phase per building.</p> <p>“Substantially complete” means that</p> <ul style="list-style-type: none"> <li>• a certificate of occupancy or other substantially similar document has been issued by the applicable governmental agency for the project or subject phase; and</li> <li>• all the units and buildings in the legal phase in which the unit securing the mortgage is located are complete, subject to the installation of buyer selection items, such as appliances.</li> </ul> <p><b>Note:</b> Fannie Mae does not require the installation of typical buyer selection items such as appliances, floor coverings, counter tops, or light fixtures that are common and customary for the market, although buyer selections that involve the modification of a unit floor plan must be complete. Lenders are expected to obtain appropriate documentation to verify that all buyer selection items for the unit being financed are properly installed prior to closing.</p>
	<p>At least 50% of the total units in the project or subject legal phase must have been conveyed or be under contract for sale to principal residence or second home purchasers.</p> <ul style="list-style-type: none"> <li>• For a specific legal phase or phases in a new project, at least 50% of the total units in the subject legal phase(s), considered together with all prior legal phases, must have been conveyed or be under contract for sale to principal residence or second home purchasers.</li> <li>• For the purposes of this review process, a project consisting of one building cannot have more than one legal phase.</li> </ul>
	<p>Individual units in new condo projects must be available for immediate occupancy at the time of loan closing.</p>
	<p>If the project is part of a larger development, and the unit owners are required to pay monthly assessments of more than \$50 to a separate master association for that development, lenders must review the overall development plan for the master association to evaluate the acceptability of the project.</p>
	<p>The overall development plan of the project must be reviewed and the following must be acceptable:</p> <ul style="list-style-type: none"> <li>• consistency of future and existing improvements,</li> <li>• time limitations for expansion, and</li> <li>• reciprocal easements between legal phases.</li> </ul>

✓	<b>Full Review Requirements - For Units in New or Newly Converted Condo Projects</b>
	<p>For projects (or the subject legal phase) that are only substantially complete rather than 100% complete, lenders must determine that acceptable completion assurance arrangements that guarantee the future completion of all project facilities, common elements, and limited common elements have been provided. These assurance arrangements may include</p> <ul style="list-style-type: none"> <li>• cash deposits,</li> <li>• letters of credit,</li> <li>• assignments of certificates of deposit, or</li> <li>• assignments of other assets that can be easily converted to cash.</li> </ul> <p>Similar arrangements must be provided to support assurances against construction and structural defects. The assurances must</p> <ul style="list-style-type: none"> <li>• protect each unit against defects that become apparent within one year from the date of its settlement, and</li> <li>• cover all common facilities for one year from the date on which units that represent at least 60% of the votes in the HOA have been transferred.</li> </ul>
	The developer or sponsor should provide for and promote the unit owners' early participation in the management of the project.
	The project must meet the condo project legal document requirements in the following section.

## Condo Project Legal Document Review Requirements for Units in New or Newly Converted Projects

The table below provides Fannie Mae's requirements for the review of the condo project's legal documents for units in new and newly converted condo projects containing more than four residential units.

<b>Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects</b>	
<b>Limitations on Ability to Sell/Right of First Refusal</b>	<p>Any right of first refusal in the condo project documents will not adversely impact the rights of a mortgagee or its assignee to:</p> <ul style="list-style-type: none"> <li>• foreclose or take title to a condo unit pursuant to the remedies in the mortgage,</li> <li>• accept a deed or assignment in lieu of foreclosure in the event of default by a mortgagor, or</li> <li>• sell or lease a unit acquired by the mortgagee or its assignee.</li> </ul>

**Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects**

<p><b>Rights of Condo Mortgagees and Guarantors</b></p>	<p>The project documents must give the mortgagee and guarantor of the mortgage on any unit in a condo project the right to timely written notice of:</p> <ul style="list-style-type: none"> <li>• any condemnation or casualty loss that affects either a material portion of the project or the unit securing its mortgage;</li> <li>• any 60-day delinquency in the payment of assessments or charges owed by the owner of any unit on which it holds the mortgage;</li> <li>• a lapse, cancellation, or material modification of any insurance policy maintained by the homeowners' association; and</li> <li>• any proposed action that requires the consent of a specified percentage of mortgagees.</li> </ul>
<p><b>First Mortgagee's Rights Confirmed</b></p>	<p>No provision of the condo project documents gives a condo unit owner or any other party priority over any rights of the first mortgagee of the condo unit pursuant to its mortgage in the case of payment to the unit owner of insurance proceeds or condemnation awards for losses to or a taking of condo units and/or common elements.</p>

## Condo Project Legal Document Review Requirements - For Units in New or Newly Converted Condo Projects

### Amendments to Documents

Required provisions related to amendments to project documents are as follow:

- The project documents must provide that amendments of a material adverse nature to mortgagees be agreed to by mortgagees that represent at least 51% of the votes of unit estates that are subject to mortgages.
- The project documents must provide for any action to terminate the legal status of the project after substantial destruction or condemnation occurs or for other reasons to be agreed to by mortgagees that represent at least 51% of the votes of the unit estates that are subject to mortgages.
- The project documents may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 60 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested. Notwithstanding the foregoing, project documents that were recorded prior to August 23, 2007, may provide for implied approval to be assumed when a mortgagee fails to submit a response to any written proposal for an amendment within 30 days after it receives proper notice of the proposal, provided the notice was delivered by certified or registered mail, with a return receipt requested.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## B4-2.2-04, Geographic-Specific Condo Project Considerations (03/01/2023)

### Introduction

This topic contains information on geographic-specific condo project considerations, including:

- [Florida — Attached Units in New and Newly Converted Condo Projects](#)
- [Florida — Project Review Maximum LTV Requirements for Attached Units in Established Projects](#)
- [Waiver of Project Review Requirements](#)

## Florida — Attached Units in New and Newly Converted Condo Projects

Fannie Mae project approval is required for new and newly converted condo projects consisting of attached units located in Florida. To request a Fannie Mae project approval refer to [B4-2.2-06, Project Eligibility Review Service \(PERS\)](#).

## Florida — Project Review Maximum LTV Requirements for Attached Units in Established Projects

The following tables describe the maximum LTV ratios that are permitted for the specific project review type for loans secured by units in condo projects located in Florida. Unless noted otherwise, these requirements are based on the LTV ratio of the mortgage loan.

<b>Florida — Attached Units in Established Condo Projects</b>			
	<b>Maximum LTV Ratios<sup>1</sup></b>		<b>Maximum LTV, CLTV, and HCLTV Ratios<sup>2</sup></b>
	<b>Approved by Fannie Mae</b>	<b>Lender Full Review (with CPM)</b>	<b>Lender Limited Review</b>
Principal Residence		95% Manual 97% DU	75/90/90%
Second Home		90%	70/75/75%
Investor		85%	70/75/75%

## Waiver of Project Review Requirements

The above requirements do not apply if the transaction is eligible for a project review waiver. See [B4-2.1-02](#),

[Waiver of Project Review](#) for additional information.

- 1 Refer to the [Eligibility Matrix](#) for the maximum allowable CLTV and HCLTV ratios. (For example, a mortgage loan for a unit in a PERS-approved project can have a CLTV ratio up to 105% if it meets the [Eligibility Matrix](#) and Community Seconds requirements.)
- 2 The CLTV and HCLTV ratios in this column align with the maximum CLTV and HCLTV ratios that are permitted for projects outside of Florida, as described in [B4-2.2-01, Limited Review Process](#).

## Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-02</a>	March 01, 2023
<a href="#">Announcement SEL-2022-02</a>	March 02, 2022

## B4-2.2-05, FHA-Approved Condo Review Eligibility (09/04/2018)

### Introduction

This topic contains information on FHA-approved condo review eligibility, including:

- [Overview](#)
- [Project Requirements](#)
- [Document Retention](#)

### Overview

Fannie Mae accepts delivery of FHA mortgage loans in FHA-approved condo projects that appear on the FHA-approved condo list. For conventional mortgage loans, Fannie Mae will accept delivery of mortgages in established projects on the FHA-approved list provided the approval was completed by FHA HUD Review and Approval Process (HRAP) rather than through an FHA Direct Endorsement Lender Review and Approval Process

(DELRAP). FHA condo project approval is not acceptable for conventional mortgage loans secured by units in new or newly converted condo projects.

Lenders may search for FHA-approved condo projects by location, name, or project status online at [HUD.gov](https://www.hud.gov) or through [CPM](#).

Lenders must maintain copies of the FHA approval documentation in the loan file.

## Project Requirements

For FHA mortgage loans, lenders must ensure that

- the FHA standard conditions have been met for presale, occupancy status, and completion;
- any additional conditions noted by FHA have been met;
- the project is not an ineligible project as defined in [B4-2.1-03, Ineligible Projects](#);
- the project is covered by the required insurance as set forth in Subpart B7-4, Liability and Fidelity/Crime Insurance Requirements for Project Developments; and
- the project is not comprised of manufactured homes.

For conventional mortgage loans, lenders must ensure that

- the project meets Fannie Mae's criteria to be considered an established project;
- the project is not comprised of manufactured homes;
- the project meets the Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project described in [B4-2.1-01, General Information on Project Standards](#);
- the project is not an ineligible project as described in [B4-2.1-03, Ineligible Projects](#); and
- any additional conditions noted by FHA have been met.

## Document Retention

When lenders deliver mortgage loans secured by condo units in an FHA-approved project, lenders must retain the documentation as set forth in Document Retention in [B4-2.1-01, General Information on Project Standards](#).

## Recent Related Announcements

There are no recently issued Announcements related to this topic.



## B4-2.2-06, Project Eligibility Review Service (PERS) (12/15/2021)

### Introduction

This topic contains information on Fannie Mae's Project Eligibility Review Service (PERS), including:

- [Overview](#)
- [Standard PERS Submission Process](#)
- [Required Forms for Standard PERS Submission](#)
- [Additional Requirements—For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects](#)
- [Additional Requirements - For Condo, Co-op, and PUD Projects Comprised of Manufactured Homes](#)
- [Streamlined PERS Submission Process—For Established Projects](#)
- [Approval Designations](#)
- [Availability of Project Information](#)
- [Decision Expiration Dates](#)

### Overview

PERS is a review method available to lenders to submit new, newly converted, and established projects to Fannie Mae to determine eligibility. Some projects must be submitted to PERS while a PERS submission is optional for other projects, as shown in the table below.

Standard PERS Process	Streamlined PERS Process
<p><b>Required for:</b></p> <ul style="list-style-type: none"> <li>• new condo project consisting of manufactured homes;</li> <li>• co-op project consisting of manufactured homes;</li> <li>• PUD or condo project consisting of single-wide manufactured homes;</li> <li>• newly converted non-gut rehabilitation condo and co-op projects with attached units that contain more than four units;</li> <li>• new and newly converted condo projects consisting of attached units located in Florida; and</li> <li>• limited or shared equity co-op projects, provided the limited or shared equity provisions are designed to preserve or promote access to affordable housing.</li> </ul> <p><b>Optional for:</b></p> <ul style="list-style-type: none"> <li>• all other new or newly converted condo projects, not listed above.</li> </ul>	<p><b>Required for:</b></p> <ul style="list-style-type: none"> <li>• established condo or PUD project consisting of manufactured homes that are subject to a community land trust, deed restriction, leasehold estate, or shared equity arrangement.</li> </ul> <p><b>Optional for:</b></p> <ul style="list-style-type: none"> <li>• established condo projects.</li> </ul>

## Standard PERS Submission Process

The standard PERS submission process is described below:

Step	Action
1.	<p>The lender performs a review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements of the Full Review process prior to submission to PERS.</p> <p>See below for additional lender pre-PERS submission review requirements</p> <ul style="list-style-type: none"> <li>• for newly converted non-gut rehabilitation condo projects, and</li> <li>• for projects consisting of manufactured homes.</li> </ul>
2.	<p>The lender completes a project submission package, that includes:</p> <ul style="list-style-type: none"> <li>• <i>Project Eligibility Review Service Document Checklist (Form 1030)</i> for condo projects or <i>Project Eligibility Review Service Document Checklist - Co-op Projects (Form 1078)</i>, for co-op projects, and</li> <li>• <i>Application for Project Approval (Form 1026)</i>.</li> </ul> <p>See below for additional forms that may be required.</p>

Step	Action
3.	<p>The condo project's legal documents must comply with the Fannie Mae's requirements listed in <a href="#">B4-2.2-03, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects</a>.</p> <ul style="list-style-type: none"> <li>• A qualified attorney engaged by the lender must review the condo project legal documents and determine that the documents are in compliance with Fannie Mae's requirements.</li> <li>• This determination must be documented by the attorney in writing but need not rise to the level of a formal, written legal opinion. The attorney may be the same person who prepared the legal documents or an attorney employed by the lender, but they cannot be an employee, principal, or officer of the developer or sponsor of the project.</li> <li>• The lender must complete the <i>Warranty of Condominium Project Legal Documents (Form 1054)</i> and attach the attorney review as part of the PERS submission process.</li> </ul>
4.	<p>The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See <a href="#">E-1-02, List of Contacts</a>.</p>
5.	<p>A member of the Project Standards team reviews the package to determine if the project is eligible for approval.</p>
6.	<p>Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website. See <a href="#">Condo, Co-op, and Planned Unit Development (PUD) Eligibility</a> for approved projects listed for each state, the District of Columbia, and the U.S. Virgin Islands.</p>
7.	<p>Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their "Monthly Technology Invoice." For fees, see the <a href="#">Project Eligibility Review Service (PERS) Overview</a> on Fannie Mae's website.</p>

## Required Forms for Standard PERS Submission

The forms shown below are required for a standard PERS submission.

<b>Form</b>	<b>Title</b>	<b>Description</b>
1026	<i>Application for Project Approval</i>	Requires certification that the lender has “underwritten” the project; includes non-residential space, common areas, sales plan, construction warranty, budget, builder/developer information, status of construction, environmental issues, resale restrictions, phasing, project management.
1029	<i>Warranty of Project Presales</i>	Requires lender certification of sales and presales information.
1030	<i>Project Eligibility Review Service Document Checklist</i>	Checklist confirming all required condo documents have been provided (see below).
1051	<i>Project Development/Master Association Plan</i>	Requires lender certification of submitted information; includes master association and sub-association description and structure, common areas, title policy, master association budget, “as-built” survey or master plan.
1054	<i>Warranty of Condominium Project Legal Documents</i>	Requires lender certification of compliance with laws and Fannie Mae legal requirements.
1071	<i>Statement of Insurance and Fidelity Coverage</i>	Requires lender certification of all insurance requirements; addresses specific insurance types and clauses, and requires the lender to obtain and review all policies.
1073	<i>Individual Condominium Unit Appraisal</i>	Individual condominium appraisal report.
1073A	<i>Analysis of Annual Income and Expenses - Operating Budget</i>	Requires lender certification that the operating budget has been analyzed; detailed operating budget information to be completed by HOA and lender.

<b>Form</b>	<b>Title</b>	<b>Description</b>
1078	<i>Project Eligibility Review Service Document Checklist - Co-op Projects</i>	Checklist confirming all required co-op documents have been provided (see below).
1079	<i>Limited or Shared Equity Co-op Worksheet</i>	Requires information for certain co-op projects.
1081	<i>Final Certification of Substantial Project Completion</i>	Lender certification that project is substantially complete; lender to document any exceptions or uncompleted.

## Additional Requirements—For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects

A non-gut rehabilitation refers to the renovation of a property that does not involve structural or functional changes, such as the replacement of all HVAC and electrical components. Rather, the rehabilitation might include, for example, the replacement of appliances and carpeting.

In order for a newly converted non-gut rehabilitation condo or co-op project to receive project approval through the standard PERS process, the project must comply with the following requirements.

✓	<b>Lender Pre-PERS Submission Review Requirements - For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects</b>
	The project cannot be an ineligible project in accordance with <a href="#">B4-2.1-03, Ineligible Projects</a> .
	For condo projects—The condo project must comply with all requirements of the Full Review (as provided in <a href="#">B4-2.2-02, Full Review Process</a> and <a href="#">B4-2.2-03, Full Review: Additional Eligibility Requirements for Units in New and Newly Converted Condo Projects</a> ). For co-op projects—The co-op project must comply with all requirements for co-op projects (as provided in <a href="#">B4-2.3-02, Co-op Project Eligibility</a> , <a href="#">B4-2.3-03, Legal Requirements for Co-op Projects</a> , and <a href="#">B4-2.3-05, Geographic-Specific Co-op Project Considerations</a> ).
	All rehabilitation work involved in the condo or co-op conversion must have been completed in a professional manner.

✓	<p align="center"><b>Lender Pre-PERS Submission Review Requirements - For Newly Converted Non-Gut Rehabilitation Condo or Co-op Projects</b></p>
	<p>A current reserve study prepared by a qualified, independent professional company, accompanied by an engineer's report, or functional equivalent, must comment favorably on the structural integrity of the project and the remaining useful life of the major project components.</p>
	<p>The project budget must contain line items for</p> <ul style="list-style-type: none"> <li>• reserves to adequately support the costs identified in the reserve study, and</li> <li>• a utility contingency of at least 10% of the previous year's utility costs if the utilities are not separately metered.</li> </ul>
	<p>Funds to cover the total cost of any items identified in the reserve study or engineer's report that need to be replaced within five years from the date of the study must be deposited in the reserve account of the HOA or of the co-op corporation, in addition to the amount stated immediately above.</p>
	<p>The developer must provide a detailed description of the work proposed or already completed in order for the project units to be ready for sale.</p>
	<p>Generally, at least 50% of the total condo units or co-op stocks or shares in the project or subject legal phase must have been conveyed or be under contract for purchase to principal residence or second home purchasers.</p>
	<p>Up to 30% of the units (or of stocks or shares for co-ops) in projects that are subject to rent regulations, which protect tenants from eviction (if they have chosen not to purchase their unit), will be permitted.</p>
	<p>Phasing of projects (single building or multiple buildings) will be considered on a project basis.</p>
	<p>The project sponsor or developer must provide a comprehensive sales and marketing strategy.</p>
	<p>All projects are subject to a site inspection.</p>

## Additional Requirements - For Condo, Co-op, and PUD Projects Comprised of Manufactured Homes

For a condo, co-op, or PUD project comprised of manufactured homes to receive project approval through the standard PERS process, the project must comply with the following requirements.

✓	<b>Lender Pre-PERS Submission Review Requirements - For Projects Consisting of Manufactured Homes</b>
	Review all aspects of the project to determine that it satisfies Fannie Mae eligibility requirements as stated in <a href="#">B4-2.1-01, General Information on Project Standards</a> .
	Review all aspects of the project to determine that it meets all eligibility requirements for the Full Review for condos or co-ops, requirements for PUDs, and any other applicable requirements.
	Review the manufactured housing unit to confirm that it meets all requirements of <a href="#">B4-1.4-01, Factory-Built Housing: Manufactured Housing</a> .
	Perform a thorough underwriting analysis of the project and provide the conclusion of such analysis.

## Streamlined PERS Submission Process—For Established Projects

The streamlined PERS submission process for established condo projects is as follows:

Step	Action
1.	The lender performs a basic review to determine if the project satisfies all applicable Fannie Mae project eligibility and underwriting requirements prior to submission to PERS.
2.	<p>The lender completes a project submission package, which includes:</p> <ul style="list-style-type: none"> <li>• <i>Application for Approval of Established Project</i> (<a href="#">Form 1091</a>).</li> <li>• <i>Condominium Project Questionnaire</i> (<a href="#">Form 1076</a>), or a substantially similar form, completed within the past 180 days.</li> <li>• An appraisal report for a representative unit in the project. This report must be prepared within 120 days of the PERS application, and include photographs of the project, private streets, recreational amenities, parking, commercial space, and common areas.</li> <li>• Current fiscal year's approved operating budget that reflects homeowners' association income and expenses.</li> <li>• Reserve study completed within the past 24 months (only required for projects that are not funding a minimum of a 10% dedicated expense allocation in the budget to a replacement reserve for the future repair/replacement of the project's major components).</li> </ul>

Step	Action
3.	The lender submits the complete project package, including all relevant supporting documentation, via email using the PERS Project Submission mailbox. See <a href="#">E-1-02, List of Contacts</a> .
4.	A member of the Project Standards team reviews the package to determine if the project is eligible for approval.
5.	Upon completion of the review, Fannie Mae issues its decision to the lender via email and posts approved projects on its website. See <a href="#">Condo, Co-op, and Planned Unit Development (PUD) Eligibility</a> for approved projects listed for each state, the District of Columbia, and the U.S. Virgin Islands.
6.	Fannie Mae informs the lender of the specific review fee assessed for each PERS submission. Lenders are billed for PERS review fees in their “Monthly Technology Invoice.” For fees, see the <a href="#">Project Eligibility Review Service (PERS) Overview</a> on Fannie Mae's website.

Fannie Mae reserves the right to request additional documentation it deems necessary to conduct a full review of the project.

## Approval Designations

Upon completion of its review, Fannie Mae will issue one of the following project approval designations:

- Conditional Project Approval,
- Final Project Approval,
- Ineligible, or
- Suspension of the Application.

Loans delivered with a PERS review must have a valid Fannie Mae Final Project Approval prior to delivery. Loans may not be delivered under the Conditional Project Approval, Ineligible, or Suspension of the Application designations.

## Availability of Project Information

Lenders submitting projects to PERS must ensure that the developer, builder, management company, and/or HOA will provide project information to Fannie Mae as and when requested without charge. In the event the requested information is not provided, Fannie Mae reserves the right to withdraw the PERS approval.



## Decision Expiration Dates

Conditional Project Approval: expires 9 months from the date of issue.

Final Project Approval: expires 18 months from the date of issue.

**Note:** Fannie Mae, in some instances and in its sole discretion, may set a shorter or longer expiration term.

For information on requesting an extension, see the [Project Eligibility Review Service \(PERS\) Overview](#) on Fannie Mae's website.

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2021-11</a>	December 15, 2021
<a href="#">Announcement SEL-2021-03</a>	April 07, 2021

## B4-2.2-07, Projects with Special Considerations and Project Eligibility Waivers (11/10/2014)

### Introduction

This topic contains information on projects with special considerations and project eligibility waivers, including:

- [Projects with Special Considerations](#)
- [Project Eligibility Waivers](#)

### Projects with Special Considerations

Lenders may identify projects that merit special consideration even though the project characteristics do not meet all of the Fannie Mae eligibility requirements. In these instances, lenders can contact the Fannie Mae

Project Standards team to discuss the possibility of accepting such projects. Exceptions to Fannie Mae eligibility and underwriting requirements are considered on a project-by-project basis.

## Project Eligibility Waivers

If the lender believes that a specific eligibility requirement should be waived for a particular project with respect to a single loan, then the lender must

- first enter the project into CPM before requesting a waiver through the Credit Variance Administration System (CVAS), and
- request a waiver from Fannie Mae through CVAS.

Fannie Mae's Project Standards team will determine if a single loan project eligibility waiver is warranted. Fannie Mae charges a nonrefundable \$200 review fee for each waiver request. A higher review fee may be charged based on the complexity of the waiver review.

**Note:** Project eligibility waivers are typically issued only for established projects, though Fannie Mae at its sole discretion reserves the right to allow this type of waiver for a unit in a new project on a case-by-case basis. New or newly converted projects must be reviewed for eligibility through an eligible lender review process or by Fannie Mae through the PERS submission process. Lenders must not request a project eligibility waiver for a unit in a new project to circumvent the required review for new projects.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.

## Section B4-2.3, PUD and Co-op Eligibility Requirements

### B4-2.3-01, Eligibility Requirements for Units in PUD Projects (03/03/2021)

#### Introduction

This topic contains information on PUD projects, including:

- [PUD Project Requirements](#)
- [Eligibility Requirements for Units in PUD Projects](#)

## PUD Project Requirements

For a project to qualify as a PUD, all of the following requirements must be met:

- each unit owner's membership in the HOA must be automatic and nonseverable,
- the payment of assessments related to the unit must be mandatory,
- common property and improvements must be owned and maintained by an HOA for the benefit and use of the unit owners, and
- the subject unit must not be part of a condo or co-op project.

Zoning is not a basis for classifying a project or subdivision as a PUD. Units in projects or subdivisions simply zoned as PUDs that include the following characteristics are not defined as PUD projects under Fannie Mae's policies. These projects

- have no common property and improvements,
- do not require the establishment of and membership in an HOA, and
- do not require the payment of assessments.

Fannie Mae classifies PUD projects as either

- Type E—established PUD projects in which the developer has turned over voting control of the HOA to the unit purchasers.
- Type F—new PUD projects in which the developer has not turned over voting control of the HOA to the unit purchasers.

PUD projects are not eligible for review using the PERS process, unless they contain single-wide manufactured housing, which require a PERS submission.

## Eligibility Requirements for Units in PUD Projects

Lenders must determine that the PUD project and subject unit meet the requirements described in Requirements Applicable to All Properties in a Condo, Co-op, or PUD Project in [B4-2.1-01, General Information on Project Standards](#).

**Note:** Any unit located in a condo or co-op project within a larger PUD project or master association must meet the applicable requirements for condo or co-op projects.

## Recent Related Announcements

The table below provides references to the Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2021-02</a>	March 03, 2021

## B4-2.3-02, Co-op Project Eligibility (07/05/2023)

### Introduction

This topic contains information on co-op project eligibility, including:

- [Co-op Project Eligibility Overview](#)
- [Request for Co-op Project Information](#)
- [Eligibility Requirements for Co-op Projects](#)

### Co-op Project Eligibility Overview

Fannie Mae purchases or securitizes co-op share loans for units in co-op projects from lenders specially approved to sell such loans to Fannie Mae. Lenders must determine the acceptability of a co-op project, unless the project is comprised of manufactured homes or is a project that is a newly converted non-gut rehabilitation of a co-op project. Such projects must be submitted via the Project Eligibility Review Service (PERS) to Fannie Mae for review.

The lack of available co-op project data and the inconsistent reporting of co-op project information can be a barrier to obtaining affordable financing for co-op housing. Lenders are responsible for determining the most appropriate method for obtaining information about co-op projects and the accuracy of the information they obtain.

For additional information, see:

- [A2-1-01, Contractual Obligations for Sellers/Serviceers,](#)
- [B4-2.3-04, Loan Eligibility for Co-op Share Loans,](#)
- [B4-2.2-06, Project Eligibility Review Service \(PERS\),](#)
- [B4-2.1-01, General Information on Project Standards.](#)

### Request for Co-op Project Information

The *Request for Cooperative Project Information* ( [Form 1074](#)) includes the project information that lenders,

investors, and mortgage insurers may use in their evaluation of the eligibility of a co-op project, and provides an efficient means of collecting basic project information from co-op project management agents, boards of directors, or sponsors/developers.

## Eligibility Requirements for Co-op Projects

The table below provides project eligibility requirements for co-op projects.

✓	<b>Full Review Eligibility Requirements - For New and Established Co-op Projects</b>
	<p>In order for a co-op share loan to be eligible for sale, the co-op project in which the secured unit is located must qualify as a cooperative housing corporation under Section 216 of the Internal Revenue Service Code. The lender’s loan or project approval file must contain evidence regarding the project’s compliance with Section 216.</p> <p><b>Note:</b> If the co-op project does not meet Section 216 requirements, Fannie Mae will not purchase a co-op share loan from within the project.</p>
	<p>The co-op housing project must</p> <ul style="list-style-type: none"> <li>• be designed principally for residential use;</li> <li>• consist of two or more units; and</li> <li>• be located in an area that has a demonstrated market acceptance for the co-op form of ownership, as reflected by the availability of similar comparable sales for co-op units in the market area.</li> </ul>
	<p>The project must be owned in fee simple.</p>
	<p>The lender is responsible for determining that the co-op cooperation holds title to the property of the co-op project, including the dwelling units. A type of co-op project that does not meet these requirements is one in which the borrower, not the co-op corporation, owns their dwelling unit in the project. Co-op share loans in these projects are commonly referred to as “land-home” or “land-lease” co-op projects and require special approval for delivery to Fannie Mae.</p>
	<p>The co-op corporation must have good and marketable title to the property, including the dwelling units and amenities. The project premises must be free and clear of liens and encumbrances in accordance with <a href="#">B7-2-05, Title Exceptions and Impediments</a>.</p>

✓	<p align="center"><b>Full Review Eligibility Requirements - For New and Established Co-op Projects</b></p>
	<p>The blanket project mortgage may be a market-rate FHA-insured mortgage or a conventional mortgage.</p> <p>The blanket mortgage for the project may be a balloon mortgage. The remaining term may not be less than six months. If the balloon mortgage incorporates an adjustable-rate feature, and the remaining term is less than three years but not less than six months, the current interest rate may not be subject to an interest rate adjustment prior to the maturity date.</p> <p>Fannie Mae purchases or securitizes co-op share loans regardless of whether Fannie Mae owns the blanket mortgage. However, if Fannie Mae owns an interest in the blanket co-op project mortgage, the maximum mortgage amount available to the borrower must be reduced by the portion of the unpaid principal balance of the blanket mortgage(s) that is attributable to the subject unit's ownership interest.</p>
	<p>Fannie Mae will not purchase or securitize co-op share loans if the co-op project is an ineligible project type, regardless of the characteristics of the share loan. See <a href="#">B4-2.1-03, Ineligible Projects</a>.</p>
	<p>The project must not be a manufactured housing project, unless the project is approved via the PERS process.</p>
	<p>The project must meet Fannie Mae's insurance requirements, as stated in <i>Subpart B7, Insurance</i>.</p>
	<p>Co-op projects may be newly constructed or conversions of existing buildings.</p>

✓	<p style="text-align: center;"><b>Full Review Eligibility Requirements - For New and Established Co-op Projects</b></p>
	<p>All newly converted non-gut rehabilitation of co-op share projects must be approved through the PERS process.</p> <p>A newly converted non-gut rehabilitation co-op project is defined as follows:</p> <ul style="list-style-type: none"> <li>• a project for which the building has been recently converted from another use such as, but not limited to, apartment use, hotel building, or warehouse;</li> <li>• the renovation work did not involve structural or functional changes, such as the replacement of all HVAC and electrical components and was limited to cosmetic or design changes such as painting, flooring, and appliances; and,</li> <li>• the project meets the criteria for being a new project because any of the following conditions exist with respect to the status of the project:             <ul style="list-style-type: none"> <li>◦ fewer than 90% of the stock or shares have been sold to purchasers;</li> <li>◦ the developer or sponsor is in control of the co-op corporation;</li> <li>◦ the project is not fully completed, such as proposed construction, new construction, or the proposed or incomplete conversion of an existing building to a co-op; or</li> <li>◦ the project is subject to additional phasing or annexation.</li> </ul> </li> </ul>
	<p>The following newly converted projects may be reviewed by the lender through the standard co-op review process rather than being submitted to PERS:</p> <ul style="list-style-type: none"> <li>• any non-gut rehabilitation conversion project that was converted at least three years prior to the co-op share loan note date that is considered “newly converted” solely because more than 20% of the stock or shares are owned by the sponsor as described in the single entity ownership provisions in <a href="#">B4-2.3-05, Geographic-Specific Co-op Project Considerations</a>; and</li> <li>• two- to four-unit non-gut rehabilitation conversions.</li> </ul>
	<p>All units, common areas, and facilities within the project must be 100% complete. The project cannot be subject to additional phasing or annexation. All construction and rehabilitation for the project must be completed in a professional manner before Fannie Mae purchases or securitizes the share loan, unless the Project Standards Team approves delivery at an earlier date.</p>
	<p>Phase I and II environmental hazard assessments are not required for co-op projects unless the lender identifies an environmental problem through the performance of its project underwriting and due diligence.</p> <p>In the event that environmental problems are identified, the problems must be determined to be acceptable, as described in <a href="#">E-2-02, Suggested Format for Phase I Environmental Hazard Assessments</a>.</p>

✓	<p align="center"><b>Full Review Eligibility Requirements - For New and Established Co-op Projects</b></p>
	<p>Stock, share, or other contractual agreement evidencing ownership, and the accompanying occupancy rights that represent at least 50% of the total number of stock or shares in the co-op corporation and the related occupancy rights of units in the project must have been sold and conveyed (or, for new construction, must be under contract for sale) to principal residence purchasers.</p>
	<p>The project’s most recent operating budget, audited financial statements, or corporate tax returns must</p> <ul style="list-style-type: none"> <li>• be consistent with the nature of the project,</li> <li>• provide for adequate cash flow to service the current debt and operating expenses, and</li> <li>• provide for adequate replacement and operating reserves.</li> </ul> <p>If the most recent budget is not available, the lender may rely on a review of the co-op corporation’s most recent audited financial statements or corporate tax returns to determine that the financial requirements in this section have been met.</p>
	<p>The project must have a good financial record, with no more than 15% of the owners being more than 60 days past due in the payment of their financial obligations to the co-op corporation. Note: This includes payment of each special assessment.</p>
	<p>If the project is a recipient of subsidies or similar benefits (such as tax or assessment abatements) that will terminate partially or fully within the next three years, the lender must evaluate the impact the expiration of such benefit will have on the project. If the benefit is scheduled to expire within three years from the note date, the lender must include the higher monthly fees in the borrower’s monthly liabilities for debt-to-income ratio qualifying purposes.</p>
	<p>The project and share loan documentation must comply with any specific legal requirements established for the state in which the project is located.</p>
	<p>The units in the project must be owned in fee simple.</p>



✓	<b>Full Review Eligibility Requirements - For New and Established Co-op Projects</b>
	<p>The co-op corporation must have the sole ownership interest in the project’s facilities, common elements, and limited common elements, except as noted below.</p> <p>Shared amenities are permitted only when two or more residential projects share amenities for the exclusive use of the unit owners. The associations or corporations must have an agreement in place governing the arrangement for shared amenities that includes the following:</p> <ul style="list-style-type: none"> <li>• a description of the shared amenities subject to the arrangement;</li> <li>• a description of the terms under which unit owners in the project may use the shared amenities;</li> <li>• provisions for the funding, management, and upkeep of the shared amenities; and</li> <li>• provisions to resolve conflicts between the residential projects regarding the amenities.</li> </ul> <p>Examples of shared amenities include, but are not limited to, clubhouses, recreational or fitness facilities, and swimming pools.</p> <p>The developer may not retain any ownership interest in any of the facilities related to the project. The amenities and facilities, including parking and recreational facilities, may not be subject to a lease between the unit owners or the co-op corporation and another party. Parking amenities provided under commercial leases or parking permit arrangements with parties unrelated to the developer are acceptable.</p>

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2023-06</a>	July 05, 2023

## B4-2.3-03, Legal Requirements for Co-op Projects (09/04/2018)

### Introduction

This topic contains information on legal requirements for co-op projects, including:

- [Amendments to Documents](#)

- [Co-op Membership](#)
- [Lien Position for Co-op Share Loans](#)
- [Prior Co-op Financing](#)
- [Assignment of Co-op's Lease/Occupancy Rights](#)
- [Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights](#)
- [Lender's Rights](#)

## Amendments to Documents

The co-op project's documents must provide for the tenant-stockholders to have the right to amend them. In addition, the co-op corporation must be legally bound to notify the holder of a co-op share loan about any proposed material changes to the co-op project with respect to allocation of membership interests, voting rights, insurance coverages, and any other provisions that are for the express benefit of the lender.

## Co-op Membership

The project documents must require that the sale or transfer of stock, shares, or membership certificates in the co-op corporation be in compliance with federal and state security disclosure laws. The documents also must require tenant-stockholders to own stock, shares, or a membership certificate, and permit the stock, shares, or membership certificates in the co-op corporation to be pledged and registered.

The project documents must give the tenant-stockholder a right to occupy the unit for a period that extends at least to the maturity date of the share loan, although this right should be subject to the terms and conditions of a proprietary lease or occupancy agreement between the tenant-stockholder and the co-op corporation. The documents also must prohibit the co-op corporation from imposing unreasonable limitations on the tenant-stockholder's ability to sell, transfer, or convey their membership, or to sublease their unit. If the purchaser's right to membership or occupancy is subject to any right of the co-op corporation to give approval, the lender must furnish evidence to clearly show that such approval has been given before Fannie Mae will purchase or securitize the co-op share loan.

## Lien Position for Co-op Share Loans

The share loan must be secured by the assignment (in pledge or trust) of the borrower's leasehold estate; a pledge or trust of the corporation stock, shares, or membership certificate; and any other documents that are appropriate under individual state or local laws and practices.

The lender that is financing the share loan must receive an assignment of the proprietary lease, occupancy agreement, or other similar evidence of the right to occupy the unit for all share loans that it delivers to Fannie Mae. The lender must also obtain a stock power, assignment, or other similar document that authorizes the lender to transfer ownership interest in the event of a default. Valid financing statements and assignments of financing statements must be executed and filed, if necessary to perfect Fannie Mae's security interest under the Uniform Commercial Code of the state in which the property is located. Information searches or equivalent evidence of filing financing statements and assignments of financing statements must be obtained and must show that the Fannie Mae co-op share loan is in first-lien position. In those states in which co-op units are considered real property, perfection of the lien must comply with state law applicable to real estate.

The share loan must be a first-lien, except that, where custom dictates to the contrary, Fannie Mae will permit its lien to be subordinate to the co-op corporation's lien against the tenant-stockholder's shares for unpaid assessments that represents the *pro rata share of the corporation's payments for the blanket mortgage, current year's real estate taxes, operating expenses or maintenance fees, and special assessments*.

**Note:** The *pro rata* share of the project debt that is related to the co-op share loan cannot exceed 35% of the sum of the related *pro rata* share of the project debt and the appraised equity interest value of the shares. Lenders may use a higher ratio (not to exceed 40%) when there are fully documented compensating factors that justify using the higher ratio.

Fannie Mae will also permit its lien to be subordinate to any assignment of rents or maintenance expenses in any mortgage or deed of trust that is secured by the co-op project, or any Regulatory Agreement entered into by the co-op corporation and the Secretary of HUD as a condition for obtaining HUD mortgage insurance.

## Prior Co-op Financing

The co-op project must be in compliance with the requirements imposed by the holder of any prior financing for the project. If the blanket mortgage on a project includes a due-on-encumbrance clause and the project is located in a state in which share loans are considered to be an encumbrance on the project, the blanket lender must consent to the share loan financing. In the case of a conversion of an existing building, the blanket lender must agree to the use of the building as a co-op and, if it is feasible, agree—in the event of a default on the blanket mortgage—not to wipe out the shares of those tenant-stockholders who are current in the payment of their assessments or carrying charges.

## Assignment of Co-op's Lease/Occupancy Rights

Generally, the project documents should not permit the co-op corporation to restrict the sale, conveyance, or transfer of a unit owned by a lender, its successors, or assigns, nor to place any limits on the assignment of the proprietary lease or occupancy agreement to the lender, its successors, or assigns. This lease or agreement must be assumable by the lender if the tenant-stockholder defaults on the share loan. If the co-op's organizational documents require that a tenant-stockholder be a natural person, they must permit the lender to select a non-corporate designee for any assignment of a proprietary lease or occupancy agreement that it acquires through foreclosure or acceptance of a deed in lieu of foreclosure. If the lender assumes the lease or agreement as the result of the tenant-stockholder's default, the co-op corporation must allow the lender to attempt to sell its interest in the lease or agreement. However, if the lender is unable to effect a satisfactory sale within 60 days—either through its own efforts or with assistance from the co-op corporation—the co-op corporation may not prohibit the lender from subletting the unit.

The project documents may grant the co-op corporation the right to approve a lender's sublessee or to offer an alternate sublessee that is satisfactory to the lender. However, the co-op corporation's approval standards and procedures may not be unreasonably restrictive or in violation of applicable law, and the action must be completed within a reasonable time after the lender requests approval of a proposed sublessee.

## Co-op Corporation's Recognition Agreement, Responsibilities, and Lender's Rights

The project documents must either require the co-op corporation to execute a separate agreement—such as a recognition agreement—or include provisions to recognize specific rights of the lender that finances the share loan (or those of its successors or assigns) and the co-op corporation’s responsibilities to that lender.

### **Co-op Corporation’s Responsibilities**

The recognition agreement (or the project’s legal documents) must include, among other things, the following responsibilities for the co-op corporation:

- The co-op corporation must evict a tenant-stockholder who has defaulted on their share loan and must terminate that tenant-stockholder’s lease, if the share loan holder requests it to do so.
- The co-op corporation must be legally bound to notify the lender of any of the following changes or occurrences:
  - any threatened or actual condemnation, eminent domain proceeding or acquisition, or any actual loss, whether or not covered by insurance, that affects any portion of the co-op project or unit;
  - failure to maintain compliance with co-operative corporation eligibility under IRS Code Section 216;
  - any 30-day delinquency by the co-op corporation in payments due under any blanket mortgage for real estate taxes, assessments, and charges imposed by a government entity or public utility, or under any ground lease;
  - any lapse or cancellation of any insurance coverages maintained by the co-op project;
  - any proposed action that requires the consent of a specified percentage of eligible share loan holders; and
  - any 90-day delinquency by the tenant-stockholder that is related to the payment of their monthly assessments or carrying charges.

### **Lender’s Rights**

The project documents must grant the lender financing a share loan the right to cure the tenant-stockholder’s defaults in their assessment payments or carrying charges and the right to review and approve the following actions before the co-op corporation can consent to them:

- any surrender, cancellation, modification, or assignment of any documents evidencing ownership, possession, and use of a unit;
- any sublease of a unit;
- any further or additional pledge or mortgage of any documents evidencing ownership, possession, and use of a unit;
- any action to change the form of ownership of the project; or
- the contraction, expansion, or termination of the co-op project.

### **Recent Related Announcements**

There are no recently issued Announcements related to this topic.

## B4-2.3-04, Loan Eligibility for Co-op Share Loans (08/07/2018)

### Introduction

This topic contains information on loan eligibility for co-op share loans, including:

- [Overview](#)
- [Co-op Share Loan Eligibility Requirements](#)
- [Calculating the LTV Ratio for Co-op Share Loans](#)
- [Co-op Share Loans Subject to Flip Tax](#)
- [Co-op Share Loan Documentation](#)
- [Whole Loan and MBS Delivery Requirements](#)

### Overview

Co-op share loans finance the purchase or refinancing of the borrower's ownership interest in a co-op housing corporation and accompanying occupancy rights in a residential unit in a co-op project owned by the co-op housing corporation. The property that secures Fannie Mae's first lien is the borrower's ownership interest in a co-op housing corporation that is represented by stock or shares in the co-op housing corporation (or by a membership certificate or other contractual agreement evidencing ownership) and an assignment of the borrower's rights under a proprietary lease or occupancy agreement with the co-op housing corporation.

### Co-op Share Loan Eligibility Requirements

Fannie Mae will purchase co-op share loans provided borrowers occupy the property as a principal residence or second home. Investment properties are prohibited. Fannie Mae does not purchase or securitize co-op share loans that are subject to subordinate financing except for high LTV refinance transactions.

For the applicable credit score, minimum reserve requirements, and maximum debt-to-income ratio requirements, see the [Eligibility Matrix](#).

### Calculating the LTV Ratio for Co-op Share Loans

The method for calculating the LTV ratio for a co-op share loan is based on whether the borrower assumes their pro rata share of the blanket mortgage or does not. In those markets where the borrower assumes their *pro rata* share of the blanket mortgage, the LTV ratio is determined by dividing the original loan amount by the lower of

- the sales price for the co-op unit (unencumbered by the unit's *pro rata* share of the co-op project's blanket mortgage(s)), or
- the appraised value of the co-op stock or shares and the related occupancy rights (unencumbered by the unit's *pro rata* share of the project's blanket mortgage(s)).

In those markets where the borrower does not assume their *pro rata share of the blanket mortgage*, then the LTV ratio is determined by dividing the original loan amount by the lower of

- the sales price for the co-op unit, or
- the appraised value of the co-op stock or shares and the related occupancy rights.

## Co-op Share Loans Subject to Flip Tax

Co-op share loans secured by units in co-op projects that require the payment of a “flip tax” are eligible for delivery as long as the co-op project’s legal documents permit the imposition of a flip tax and provide for one of the following:

- the lender is exempt from paying the flip tax if the lender acquires the co-op unit in foreclosure, in a transfer by the borrower in lieu of foreclosure, or any other transfer of the borrower’s interest in the co-op unit in full or partial satisfaction of the borrower’s obligations under the co-op share loan; or
- the flip tax is payable when the sales price of the co-op unit exceeds the existing unit owner’s purchase price (based on property appreciation) and then is assessed only on the amount of the appreciation in value (this flip tax is profit-based).

If the flip tax does not meet one of these requirements and is due whether or not the sales price exceeds the existing unit owner’s purchase price, then it may still be eligible as long as the amount of the flip tax is less than or equal to 5% of the value of the property (calculated as the lesser of appraised value or sales price) and it is calculated in one of the following ways:

- a flat fee,
- a fee per share,
- a percentage of the appraised value or sales price of the co-op unit, or
- a dollar amount per room.

## Co-op Share Loan Documentation

Fannie Mae does not publish multistate standard co-op share loan instruments because of the variations in state laws pertaining to the co-op form of ownership. If a lender elects to use the Fannie Mae fixed-rate note forms for co-op share loans, the lender represents and warrants that the notes comply with all applicable laws and regulations for co-op share loans in and are enforceable and negotiable under the laws of the applicable jurisdiction.

Fannie Mae publishes state-specific documentation requirements for states in which Fannie Mae purchases co-op share loans on [Fannie Mae's website](#). Those requirements describe documents that must be delivered to the document custodian (for example, co-op Recognition Agreement, assignments to Fannie Mae, and evidence of share ownership) and documents that the lender must retain in the individual loan file.

## Whole Loan and MBS Delivery Requirements

Co-op share loans may be delivered as whole loans in standard commitments. Co-op share loans pooled in MBS may be eligible for delivery as long as they meet the requirements in

- [C3-2-01, Determining Eligibility for Loans Pooled into MBS;](#)
- [C3-5-05, Commingling ARMs in MBS;](#) and
- [C3-6-01, Parameters for Pooling Loans Into Fannie Majors.](#)

## Recent Related Announcements

The table below provides references to recently issued Announcements that are related to this topic.

Announcements	Issue Date
<a href="#">Announcement SEL-2019-07</a>	August 07, 2019

## B4-2.3-05, Geographic-Specific Co-op Project Considerations (09/04/2018)

### Introduction

This topic contains information on geographic-specific co-op project considerations, including:

- [Overview](#)
- [Special Treatment of Single-Entity Ownership Requirements](#)
- [Negative Cash Flow from Unsold Units](#)
- [Delivery Requirements](#)

### Overview

The policies in this topic are applicable to co-op projects located in the five boroughs of the City of New York and the New York state counties of Nassau, Rockland, Suffolk, and Westchester. These policies provide eligibility flexibilities that address specific local market conditions and may not be applied to co-op projects outside of these geographic areas.

### Special Treatment of Single-Entity Ownership Requirements

The sponsor may own more than 20% of the stock or shares in the corporation and the related occupancy rights provided that any such stock or share ownership above the 20% limitation pertains to units that are subject to statutory rent regulations that limit the sponsor's ability to sell their ownership interest in such shares or stocks. The lender must obtain documentation to validate that the stock or share is subject to such regulations.

## Negative Cash Flow from Unsold Units

Negative cash flow from unsold units is permitted provided all of the following requirements are met:

- The co-op corporation's last audited financial statement, current operating budget, and proposed operating budget for the following fiscal year, if any, and the New York State Attorney General's Financial Disclosure Statement ("Attorney General's Disclosure Statement") applicable to such co-op project must demonstrate that to the extent that the project has negative cash flow from unsold units
  - such negative cash flow (including, but not limited to, any principal and interest payments relating to the financing obtained by the sponsor to acquire the co-op project) will not exceed an amount equal to 5% of the project's annual operating budget;
  - no more than 15% of the co-op unit owners are more than 30 days delinquent in the payment of their financial obligations to the co-op corporation; and
  - if the sponsor fails to pay the monthly assessments relating to all co-op units owned by the sponsor, the monthly assessments of the co-op share owners other than the sponsor will not increase by more than 10%.
- The Attorney General's Disclosure Statement or equivalent sponsor disclosure must also indicate that
  - the sponsor is current on all financial obligations under the offering plan relating to the project;
  - the sponsor is current on all financial obligations relating to any other project in which the sponsor owns or holds more than 10% of the units; and
  - the sponsor has not pledged any of the shares of the co-op project as security for any loan other than to secure, in whole or in part, the financing obtained by the sponsor to acquire the co-op project.
- The Attorney General's Disclosure Statement or equivalent sponsor disclosure must be dated no more than 18 months prior to the share loan note date.

## Delivery Requirements

Co-op share loans delivered with the geographic flexibilities described in this topic must be delivered to Fannie Mae with Special Feature Code (SFC) 107 in addition to any other required SFCs.

## Recent Related Announcements

There are no recently issued Announcements related to this topic.