

Temporary Flexibility In Appraisal Requirements in Light of COVID-19

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Executive Summary

In its Lender Letter (LL-2020-04) dated March 23, 2020, Fannie Mae announced that it is allowing temporary flexibilities to their appraisal inspection and reporting requirements.

Fannie Mae will now accept an alternative to the traditional appraisal required under Selling Guide Chapter B4-1, Appraisal Requirements, when an interior inspection is not feasible because of COVID-19 concerns.

Fannie Mae will allow either a desktop appraisal or an exterior-only inspection appraisal in lieu of the interior and exterior inspection appraisal (i.e., traditional appraisal).

These temporary flexibilities are effective immediately for all loans in process and remain in place for loans with application dates on or before May 17, 2020.

A summary of these flexibilities can be seen in the table below:

Loan Purpose	LTV ratio	Occupancy	Ownership of Loan being refinanced	Permissible appraisals (in order of preference)
Purchase*	Per Eligibility Matrix	Principal residence	N/A	Traditional appraisal Desktop appraisal Exterior-only appraisal
	≤ 85%	Second home Investment		Traditional appraisal Desktop appraisal Exterior-only appraisal
	>85%	Second home		Traditional appraisal
Limited Cash-out refinance	Per Eligibility Matrix	All	Fannie Mae-owned	Traditional appraisal Exterior-only appraisal
			Not Fannie Mae-owned	Traditional appraisal
Cash-out refinance			Fannie Mae or not Fannie Mae-owned	Traditional appraisal

*Excludes new construction and construction-to-permanent loans.

Background:

These are challenging times and businesses across the world are trying to reinvent their ways of working virtually. The appraisal industry is one of those businesses which has suddenly found itself in a tight spot since most of an appraiser's work is conducted in person

With mortgage rates nearing all-time lows, there has been a significant surge in refinance activity which has resulted in an increase in appraisal transactions. In order to meet the demand appraisers need to be out in the field and to enter client homes when social distancing rules are stricter than ever, creating mounting concern as the virus continues to spread throughout the nation.

As per numerous researches it has been found out that the virus can live for “several hours to days in aerosols and on surfaces,” appraisers entering homes to inspect may lead to increased spread of the virus. In addition, as states and cities are going into lock downs to stop the spread which is causing a hurdle in the appraisers' work as they are being prohibited to travel to houses to inspect.

Since appraisers are having a difficult time in inspection the lenders are unable to obtain an appraisal based on a full interior and exterior inspection of the subject property. In response to this critical situation, the Federal Housing Finance Agency (FHFA) on March 23, 2020 announced that it is mandating Fannie Mae and Freddie Mac to adopt alternative property appraisal methods and will allow either a desktop appraisal or an exterior-only inspection appraisal in lieu of a traditional appraisal. The new rule is in place through May 17, 2020.

It is expected that due to the temporary flexibilities in the traditional appraisal process, appraisers and lenders will be able to get the loans closed easily and efficiently.



Desktop Appraisals



For purchase money transactions when an interior and exterior appraisal is not available, lenders are encouraged to obtain a desktop appraisal rather than an exterior-only appraisal.

The minimum scope of work for a desktop appraisal does not include an inspection of the subject property or comparable sales. The appraiser relies on public records, multiple listing service (MLS) information, and other third-party data sources to identify the property characteristics.

When a desktop appraisal is performed, reported on Form 1004 or Form 1073, and submitted to Fannie Mae through the Uniform Collateral Data Portal® (UCDP®), the appraisal will be scored by Collateral Underwriter® (CU®). All loans with a CU risk score of 2.5 or less will receive value representation and warranty relief under Day 1 Certainty. With desktop appraisals, lenders will have the added risk management and efficiency benefit of being able to use CU to aid in the appraisal review process..

The table below provides the appraisal report form that must be used to complete the desktop appraisal for each property type.

Property Type	Acceptable Appraisal Form
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	Uniform Residential Appraisal Report (Form 1004)
Condominium Unit	Individual Condominium Unit Appraisal Report (Fannie Mae Form 2090)
Cooperative Unit	Individual Cooperative Interest Appraisal Report (Form 1073)
2-4 Unit Property	Small Residential Income Property Appraisal Report (Form 1025)
Manufactured Home	Manufactured Home Appraisal Report (Form 1073)

Exterior-only inspection appraisals



An exterior-only inspection appraisal may be obtained in lieu of an interior and exterior inspection appraisal for the following transactions:

- Purchase money loans
- Limited cash-out refinances where the loan being refinanced is owned by Fannie Mae

Lenders will not receive value representation and warranty relief under Day 1 Certainty® for loans with exterior-only appraisals.

The table below shows the appraisal report form that must be used to complete an exterior-only inspection appraisal for each property type. Because there are not appropriate exterior-only appraisal report forms available for two-four unit properties and manufactured homes, Fannie Mae will accept an exterior appraisal scope of work completed using the applicable forms listed below.

Property Type	Acceptable Appraisal Form
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	Exterior-Only Inspection Residential Appraisal Report (Form 2055)
Attached Condominium Unit	Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Form 1075)
Cooperative Unit	Exterior-Only Individual Cooperative Interest Appraisal Report (Fannie Mae Form 2095)
Two-Four Unit Property	Small Residential Income Property Appraisal Report (Form 1025)
Manufactured Home	Manufactured Home Appraisal Report (Form 1004C)



Exhibits for desktop appraisals & Exterior-only inspection appraisals

Exhibits for desktop appraisals

Each desktop appraisal must include the following exhibits:

- Photographs of the subject property. Freddie Mac recognizes it may be challenging in some instances to obtain photographs; however, it is expected that the appraiser utilize available means to obtain relevant pictures of the subject property.
- A location map indicating the location of the subject and comparables

Exhibits for exterior-only inspection appraisals

Lenders are reminded that the following exhibits to the appraisal report are required for an exterior-only inspection appraisal:

- A street map that shows the location of the subject property and of all comparable sales that the appraiser used; © 2020 Fannie Mae LL-2020-04 Page 4 of 5
- Clear, descriptive photographs (either in black and white or color) that show the front of the subject property, and that are appropriately identified (photographs must be originals that are produced either by photography or electronic imaging); and
- Any other data—as an attachment or addendum to the appraisal report form—that are necessary to provide an adequately supported opinion of market value.

Revisions to Scope of Work



To accommodate the temporary flexibilities in this Lender Letter, Freddie Mac and Fannie Mae have jointly developed the following documents that include modified language to be used with desktop appraisal reports and exterior-only appraisal reports:

Desktop:

<https://singlefamily.fanniemae.com/media/document/doc/desktop-appraisal-forms-covid-temp-certification>

Exterior-Only:

<https://singlefamily.fanniemae.com/media/document/doc/exterior-appraisal-forms-covid-temp-certification>

The appraiser is instructed to report the results of the desktop or exterior-only inspection appraisal on the current 1004 form (or the 1073 form if the subject is a condominium unit). The appraiser must follow the modified set of instructions that are included as an attachment to the lender letter. The appraiser is instructed to insert “Desktop” or “Exterior” on the form under the Map Reference field and then copy specific GSE-provided text and paste it into the report. This required text has been developed jointly by Fannie Mae and Freddie Mac; it modifies the scope of work, statement of assumptions and limiting conditions, and the certifications for the 1004 and 1073 forms.

Completion reports (Form 1004D)

We require the Appraisal Update and/or Completion Report (Form 1004D) to evidence completion when the appraisal report has been completed “subject to.” For all loans for which a completion certification is not available due to issues related to COVID-19, with the exception of HomeStyle® Renovation and HomeStyle Energy loans, we will permit a letter signed by the borrower confirming that the work was completed. Lenders must also provide further evidence of completion, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation. All completion documentation must be retained in the loan file.

HomeStyle Renovation and HomeStyle Energy requirements

The temporary appraisal flexibilities for desktop and exterior-only appraisals and completion reports may not be used with HomeStyle Renovation or HomeStyle Energy loans when the appraisal is done subject to completion. Lenders must use a traditional appraisal with an interior and exterior inspection for these transactions as well as a 1004D when one is required. If a lender is unable to obtain a traditional appraisal, the loan is not eligible for sale to us. Additional information concerning other requirements for renovation loans will be provided in a forthcoming Lender Letter.



Additional form instructions for appraisals

For a desktop appraisal or an appraisal with an exterior-only inspection that is completed on a form for an interior and exterior inspection (e.g., Form 2055) as permitted above, the appraisal report must include, in the “Map Reference” field, the corresponding text identifier that reports the type of appraisal completed: “desktop” or “exterior.”

Identification of a Fannie Mae loan

Lenders can determine whether the existing loan is a Fannie Mae loan by referencing their own servicing records or by using the [Loan Lookup](#) tool.

Appraisal waivers

Lenders are encouraged to accept appraisal waiver offers when eligible and provided through DU to address concerns around contact between appraisers and homeowners. Lenders are reminded to submit the case to DU to determine whether an appraisal waiver is offered before ordering an appraisal. We remind lenders that all Selling Guide requirements pertaining to appraisal waivers apply (see Selling Guide B4-1.4-10). We are continuing to monitor the impact of COVID-19 and will evaluate additional appraisal waiver flexibilities if the situation warrants such action.

Delivery requirements

At this time, lenders are not required to make any changes to the data they submit to Loan Delivery in connection with the flexibilities announced in this Lender Letter. We will assess whether changes will be necessary and will notify lenders if changes are required at a future date.

“What This Means For You”

Lenders

- “Keeping the lights on” – the communication flowing, and business thriving is the core to what we do. Lenders can login to their VL Direct dashboard remotely and manage orders and ensure timely delivery of reports through a seamless and secure connectivity between their team members.
- With the constantly changing circumstances, it is important to communicate quickly and effectively to all stakeholders. ValueLink has built in tools that help send out messages quickly to your entire vendor panel and to your loan team.
- In order to manage risk, lenders are encouraged to carefully review the guidelines to understand how it could increase the chances of a loan buyback and when the use of the relaxed guidelines is applicable to your loan process.
- New delivery guidelines and instructions must be issued for their panel of appraisers and/or appraisal management companies (AMCs). These need to be a part of the engagement instructions sent to vendors to ensure that reports delivered are as per the revised guidelines.

Appraisal Management Companies

- AMCs are introducing new products specifically for COVID 19. The new products will help reduce ambiguity for the appraisers making it easier for them to select the correct form type when completing the report and minimize revisions.
- It is important to communicate with your Lender clients to understand how they are planning to change their process based on the revised guidelines. Once you have clarity, you must modify the client engagement terms to include verbiage that provides effective guidelines to appraisers completing orders for the client.
- For health & safety purpose, AMCs are increasingly going fully remote to run their operations. ValueLink Core is designed to facilitate remote work, and managers can use the built-in tools to track staff productivity.
- It is extremely important to communicate your company’s strategy to all stakeholders considering the new guidelines. ValueLink Core has built in tools that help send out messages quickly to your entire vendor panel and to your Clients.

Appraisers

- The new guidelines are an important step towards ensuring appraiser safety and make it easier for appraisers to work from the safety of their homes and only go out to inspect properties when it is necessary.
- Appraisers can leverage tools like our ValueLink Connect platform to effectively manage their office while having their team work remotely and have a unified repository of documents and messaging for all their orders.
- The new guidelines do put a lot of onus on the appraiser to choose the correct forms and include the right verbiage in their appraisal reports.

Some useful links are listed below:

- [Fannie Mae Resources](#)
- [Freddie Mac Resources](#)
- [Appraisal Institute Resources](#)

Learn More

References: All sources used to develop the white paper have been taken from Lender Letter (LL-2020-04) which was shared with All Fannie Mae Single-Family Sellers; you can read the complete details by clicking the link below:

<https://singlefamily.fanniemae.com/media/22321/display>

FHA: https://www.hud.gov/sites/dfiles/SFH/documents/SFH_COVID_19_QA_03_18_20.pdf

USDA: https://www.rd.usda.gov/sites/default/files/USDA_RD_SA_COVID_GovDelivery_SFH_Origination03272020.pdf