FAQs

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March 08, 2023

Fannie Mae: Appraisals No Longer the 'Default Requirement'

Fannie Mae on March 1 updated its Selling Guide to include a range of options for property valuations as the government-sponsored enterprise moves away from suggesting that an appraisal is a "default requirement." Fannie notes that home valuation options include value acceptance, value acceptance plus property data and hybrid appraisals.

In response, Appraisal Institute President Craig Steinley, MAI, SRA, AI-GRS, AI-RRS, stated, "This announcement does raise concerns and questions about increasing collateral risk at a time of market volatility. Further, the change complicates appraiser recruitment and diversity efforts through the insertion of an unregulated contingent of property data collectors into the mortgage lending process." He also noted that the Appraisal Institute has been offering education on desktop and hybrid appraisals for many years and that the valuation profession is fully prepared to deliver a range of services to the mortgage market.

Read Fannie Mae's updated Selling Guide.

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Fannie Mae

Selling Guide Announcement (SEL-2023-02)

March 1, 2023

The *Selling Guide* has been updated to include changes to the following:

- Valuation modernization: transitioning to a range of options to establish a property's market value, with the option matching the risk of the collateral and loan transaction
- Sweat equity: providing additional guidance on the use of sweat equity and nonprofit program providers
- Lender quality control updates: revising timelines and expectations for both prefunding and post-closing quality control reviews
- Required use of Condo Project Manager™: requiring the use of CPM™ for projects where a Full Review is required
- Miscellaneous updates:
  - Maintaining seller/servicer eligibility
  - HomeStyle® Renovation indicator
  - Government loan guaranty or insurance

View the list of impacted topics.

Valuation modernization

Valuation modernization involves leveraging technologies, data, and analytics to enhance the management of collateral risk, making the process more efficient for lenders, borrowers, appraisers, and secondary-market investors. Valuation modernization helps lenders, appraisers, and risk investors manage collateral risk more effectively, while also benefiting consumers via greater appraisal accuracy, lower costs, and increased speed of loan decisioning.

We are on a journey of continuous improvement to make the home valuation process more efficient and accurate. As such, we are transitioning to a range of options to establish a property's market value, with the option matching the risk of the collateral and the loan transaction. The spectrum balances traditional appraisals with appraisal alternatives. With this update, we are introducing the following:

- **Value acceptance** is being used in conjunction with the term "appraisal waiver" to better reflect the actual process of using data and technology to accept the lender-provided value. We are moving away from implying that an appraisal is a default requirement. (Note that we are using "value acceptance (appraisal waiver)" for a period of time and will eventually move to "value acceptance" after the market absorbs this change.)
- **Value acceptance + property data** is a new option that utilizes property data collection by a third party who conducts interior and exterior data collection on the subject property. To ensure consumer protections, the lender must verify and be able to demonstrate that data collectors are
  - vetted through an annual background check,
  - professionally trained, and
  - they possess the essential knowledge to competently perform the property data collection.

  The property data collection is used by the lender to confirm property eligibility, and an appraisal is not required. This option also requires submission of the data to Fannie Mae's Property Data API based on a new data standard and delivery of Special Feature Code 774. See Fannie Mae's website for additional information.
- **Hybrid appraisals** are based on interior and exterior property data collection by a vetted and trained third-party that is provided to an appraiser to inform the appraisal. They are permitted for certain one-unit transactions where value

acceptance + property data was initially started, but changes in loan characteristics results in the transaction not being eligible for that option.

- A new policy allows alternative methods to the *Appraisal Update and/or Completion Report* (Form 1004D). These include a borrower/builder attestation letter to verify completion of construction, and a borrower attestation letter to confirm completion of repairs for existing construction in lieu of Form 1004D. The policy further describes required exhibits and controls. These **completion alternatives** are necessary for lenders to confirm completion of repairs or alterations with the value acceptance + property data option because Form 1004D cannot be used when there is no appraisal. This change also allows appraisers to use virtual inspection technology to supplement the 1004D process with certain constraints.

We also clarified the long-standing policy related to property condition and quality of construction of the improvements. Properties with a condition rating of C6 are not eligible for sale to us. 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 sale of the loan to Fannie Mae.

Effective: Lenders may take advantage of completion alternatives immediately. Desktop Underwriter® (DU®) will be updated the weekend of April 15, 2023, to support these updates.

Sweat equity

We allow sweat equity as an acceptable source of down payment for a HomeReady® loan meeting certain eligibility criteria. With this update, we expand the circumstances and limit to which sweat equity may be used, further define program provider requirements, and define how to calculate the contributory value of sweat equity labor. Specifically, we removed the following limitations from HomeReady sweat equity transactions:

- The borrower is no longer required to contribute at least 3% of their own funds when sweat equity is used towards the down payment on a one-unit property.
- There is no longer a cap of 2% sweat equity that may be used as part of the minimum down payment of 5% for a one-unit property.

In addition, we clarified our expectations for sweat equity program providers, which must be recognized by the IRS as a 501(c)(3) organization. We also added new guidance to determine the dollar value for sweat equity to be based on an hourly rate established by the nonprofit.

We believe these changes will allow more borrowers to use sweat equity as a source of down payment while providing lenders with additional resources to ensure nonprofit partners meet our eligibility guidelines.

Effective: Lenders may take advantage of these updates immediately. The DU messages specific to sweat equity will be updated the weekend of April 15, 2023.

Lender quality control updates

In an effort to improve overall loan quality and reduce the number of loans requiring remediation by lenders, we have enhanced both our prefunding and post-closing quality control policies.

Lenders must complete a minimum number of prefunding reviews monthly. The total number of loans to be reviewed must equal either:

- 10% of the prior month's total number of closings, or
- 750 loans.