Section 1.07 – Appraisal Standard

In This Section This section contains the following topics.

Overview

Introduction

- The safety and soundness of mortgage loans secured by real estate depends upon the adequacy of the underwriting supporting the transaction.
- A valuation of the real estate collateral is an essential component of this process and shall consist of a real estate appraisal.
- Most real estate collateral valuation requirements are imposed by banking regulations, appraisal standards and statutes/ordinances (i.e., Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, or "FIRREA," as amended, the Uniform Standards of Professional Appraisal Practice, or "USPAP," etc.). Many of these requirements are incorporated within these standards.
- The purpose of these standards is to describe prudent and appropriate valuation practices for use by Correspondent Lenders of Truist.
- These standards are intended to incorporate requirements to promote compliance with policies guidance issued by the various regulatory agencies.

References:

- See the topic *Appraisal Analysis* subsequently presented for additional standards and requirements on property appraisals.
- See the specific product descriptions (i.e. *Key Loan Program, Agency,* etc.) in the online seller guide under the *Products* tab for specific appraisal report requirements.

Standard Summary

- All extensions of credit by Truist shall be supported by a real estate appraisal or a property inspection waiver (when applicable), except for FHA Streamline Refinance, VA IRRLs and RD Streamlined Assist transactions.
- All conventional and supplemental appraisal reports must meet Appraiser Independence Requirements.

  Note: Supplemental appraisal reports include:
  - 1004D/442 Appraisal Update and/or Completion Report
  - 1007/1000 Single Family Comparable Rent Schedule
  - HUD 92051 Compliance Inspection Report

- VA appraisal reports are ordered through the Veterans Administration.
- The Veterans Administration (VA) requires an appraiser who is assigned by VA, to complete the appraisal.

Continued on next page

Standard Summary, continued

- All conventional appraisals must include color photographs as part of the appraisal exhibits.
  - Delegated correspondent Lenders are responsible for representing and warranting that the loan file was reviewed and underwritten with color photographs.
  - Non-delegated Correspondent Lenders must provide color appraisal photographs in the credit loan package delivered to Truist.
  - Closed loan packages imaged in black and white will continue to remain acceptable, provided the appraisal photographs are legible.
- For all loan programs, facsimile (faxed) appraisal reports are not acceptable.
- At a minimum, regulations require that real estate appraisals utilized in connection with federally related transactions be performed in accordance with the appraisal standards published by the Appraisal Standards Board of the Appraisal Foundation.
- The Appraiser Independence Requirements are intended to reinforce the independence of the appraiser and establishes requirements governing appraisal selection, solicitation, compensation, conflicts of interest and corporate independence.
- These regulations require Truist to maintain appraisal policies to ensure that appraisals reflect base level professional competence, negate any direct or indirect interest, financial or otherwise, in the property or transaction, and to facilitate the reporting of estimates of market value upon which institutions rely to make lending decisions. In the interest of safety and soundness, Truist will maintain prudent underwriting policies.
- Appraisals are an essential component of the loan underwriting process because appraisal reports contain the estimates of collateral values.
- A real estate appraisal must convey in writing an independent, impartial opinion of value of a particular property and is the result of a complete appraisal assignment performed by a state licensed or certified appraiser (as mandated under Title XI) in compliance with Uniform Standards of Professional Appraisal Practice, or USPAP.
- Federal agencies require that an institution, or its agent, directly engage the appraiser for the appraisal assignment. Truist requirements prohibit the borrower, lender, or any other interested party from influencing the selection of the appraiser.
- In the interest of safety and soundness, Truist requires lenders to use prudent underwriting policies.

Continued on next page

Standard Summary, continued

Disclosure of Information to Appraisers

Agency Loans
Reference: See "Disclosure of Information to Appraisers" in the "Appraisal Requirements" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for standards.

Non-Agency
- **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 or 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 broker, or any other party to the transaction (see "Environmental Hazards Appraisal Requirements" subsequently presented in the "Special Appraisal and Other Considerations" subtopic for additional information), and
      - any other items that affect the safety, soundness, or structural integrity of a property of which the lender may be aware.

Continued on next page

Standard Summary, continued

Non-Agency, continued

- **Information Disclosed to the Appraiser**, continued
  - **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, 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:
      - sales price,
      - transaction terms,
      - financing concessions,
      - seller-paid closing costs,
      - names or initials,
      - closing date, and
      - correction of minor clerical errors such as misspellings.

Related Bulletins

General

Related bulletins are provided below in PDF format. To view the list of published bulletins, select the applicable year below.

- 2025
- 2024
- 2023
- 2022
- 2021
- 2020

Appraisers

Appraiser Selection Criteria

Agency Loans
Reference: See "Appraisal Selection Criteria" in the "Appraisal Requirements" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for standards.

Non-Agency Loans
- Truist does not require pre-approval of individual appraisers, but has established recommended minimum criteria that all appraisers should meet
- Truist may request the Correspondent lender to discontinue use of an appraiser whose work is found to be inconsistent with Fannie Mae/Freddie Mac standards despite any designation the appraiser may hold.
- The appraiser must meet the following conditions:
    - be currently licensed and/or certified by the state in which the property is located,
    - have a minimum of one (1) year experience as a residential appraiser,
    - must appraise full-time (at least seventy five (75%) of their income must come from appraising residential properties),
    - be current with the Uniform Standards of Professional Appraisal Practice (USPAP), and those of the secondary market,
    - meet educational and experience criteria required by professional appraisal organizations and/or the qualifications criteria as established by the Appraiser Qualifications board of the Appraisal Foundation,
    - show a track record of continued education to stay abreast of current appraisal standards,
    - carry Errors and Omission Insurance with a minimum of $250,000 coverage (if applicable),
    - have specific appraisal experience that is appropriate for a particular appraisal assignment, and
    - must not be listed on any of the following:
        - Freddie Mac's Exclusionary List.
        - Truist Ineligible List,
        - FHA's Procurement List, and
        - an Investor's specific Appraiser Exclusionary List.

Continued on next page

Supervisory or Review Appraiser Update

Agency Loans
Reference: See "Appraisal Selection Criteria" in the "Appraisal Requirements" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for standards.

Non-Agency Loans
- A licensed or certified supervisory or review appraiser may continue to sign the appraisal completed by an employee; however, the licensed or certified appraiser ***must complete the physical inspection of the subject property.***
- When a licensed/certified supervisory or review appraiser signs the appraisal report on the left hand side of the report form as the appraiser, the supervisory/review appraiser must have performed the inspection of the subject property.
- The licensed/certified supervisory or review appraiser *must not* be on the Truist Ineligible List.

Please see table below for a list of scenario examples to help explain the requirements.

Scenario	Individual Eligible to COMPLETE the Appraisal Report	Location of Signature(s) on the Appraisal Report	Individual Eligible To Inspect the Subject Property
Unlicensed/uncertified (trainee) employee completes the majority of the appraisal work	If state law allows, both an unlicensed/uncertified (trainee) appraiser and a supervisory appraiser	Unlicensed/uncertified (trainee) appraiser signs on the left hand side as the "Appraiser" and a state licensed or certified appraiser must sign as the supervisory appraiser on the right hand side of the appraisal	Licensed/Certified appraiser and unlicensed/ uncertified (trainee) appraiser.
Unlicensed/uncertified (trainee) employee completes the majority of the appraisal work	A licensed/certified appraiser	On the left hand side as the "Appraiser"	Licensed/certified appraiser
Licensed/certified appraiser completes the appraisal work	The licensed/certified appraiser	On the left hand side as the "Appraiser"	Licensed/Certified appraiser
Licensed/certified appraiser completes the appraisal work.	Licensed/certified appraiser and a supervisory appraiser	Licensed/certified appraiser on the left hand side of the appraisal and the supervisory appraiser signs the report signs on the right hand side of the appraisal	Licensed/certified appraiser

Continued on next page

Ineligible Appraisers

- While Truist does not require pre-approval of individual appraisers, Truist does maintain a list of ineligible appraisers and appraisal companies.
- Any appraisers or appraisal companies identified on the list are not eligible to perform appraisal assignments, either directly or indirectly, on properties that secure loans to be funded or purchased by Truist.
- Any appraiser or appraisal company that is currently on the *Truist Ineligible List* and would like information on how to be removed from the list should contact the Truist Fraud and Collateral Risk Management Department at CollateralRiskMgmt@Truist.com.
- The appraiser's and supervisory appraiser's names, if applicable, and company for every loan needs to be checked against this list prior to ordering or accepting an appraisal report. Correspondent lenders warrant that no person or company on the Truist Ineligible List is involved in whole or part in the origination of a loan funded by Truist.
- The *Truist Ineligible List* contains confidential information and is only for use by Correspondent lenders of Truist in connection with transactions with Truist.
- Due to the confidential nature of the information contained therein, distribution of the *Truist Ineligible List* is strictly prohibited. By accessing or using the *Truist Ineligible List*, the user agrees to indemnify Truist for any loss, damage, or expense resulting from the user's failure to maintain the confidentiality of the information it contains.

Click here to access the *Truist Ineligible List.*

Government Appraisal Approved Lists

- For FHA loans, all appraisers must be listed on the FHA Roster as provided by HUD.
- For VA loans, all appraisers are assigned by VA in conjunction with ordering case numbers.
- For RD loans, all appraisers must be listed on the FHA Roster as provided by HUD.

Appraiser Independence Requirements: Agency Loan Programs

General

- The Appraiser Independence Requirements (AIR) set forth standards to safeguard the independence, objectivity, and impartiality of appraisers and other Independent Parties throughout the valuation process for 1 to 4-unit residential properties.
- For purposes of the Appraiser Independence Requirements, the term "Independent Party" refers to the appraiser, appraisal company, appraisal management company, any entity or person related to the appraiser, appraisal company, or appraisal management company, or any other party that is part of the appraisal process. Compliance with these Appraiser Independence Requirements is the responsibility of the lender.
- Click here to access the Appraiser Independence Requirements.

Appraiser Independence Requirements: Non-Agency Loan Programs

Scope of the Code

- The Appraiser Independence Requirements are intended to reinforce the independence of the appraiser. They establish requirements governing:
  - appraiser selection,
  - solicitation,
  - compensation,
  - conflicts of interest, and
  - corporate independence.

- The Appraiser Independence Requirements are not intended to establish any new requirements or obligations that require a lender to:
  - obtain an appraisal or use any particular method of property valuation,
  - determine an acceptable scope of work for an appraiser in connection with a particular appraisal assignment, or
  - take any action prohibited by federal and/or state law or regulation.

Appraiser Engagement

Any employee of the lender that is responsible for selecting an appraiser or appraisal company must be trained and qualified to review an appraisal and be completely independent of the loan and production staff process.

Appraiser Requirements

An appraiser must be licensed or certified by the state in which the subject property is located.

Reference: See the “Appraiser Selection Criteria” section in these Appraisal Standards for additional information.

In-house Staff Appraisers

Notwithstanding the standards above, the lender may use an in-house staff appraiser to order appraisals, conduct appraiser reviews, perform quality control tasks, develop, deploy or use internal Automated Valuation Models; or prepare appraisal for transactions that do not include mortgage origination, such as workout loans, if it complies with the terms of the Appraiser Independence Requirements.

Continued on next page

Appraiser Compensation

- The lender is responsible for selecting and compensating the appraiser.
- Appraisers are prohibited from accepting compensation for the appraisal assignment directly from the borrower, broker, real estate agent or any third party, with the exception of an Appraisal Management Company.

Reference: See the *Transfer / Re-assignment of Appraisal Report* topic, subsequently presented in this document for additional information.

Settlement Services Provider

The lender is not allowed to use an appraisal report prepared by an entity that is affiliated in any way with the company providing the settlement services unless the entity that supplies the appraisal has established formal written policies and procedures implementing the Appraiser Independence Requirements which include adequate training and disciplinary rules on appraiser independence. The disciplinary rules must include reporting and disciplining anyone who violates these policies and procedures.

Prohibited Activities

- All members of the lender's production staff are not allowed to select, retain, recommend or influence the selection of an appraiser for a specific appraisal assignment.
- No employee, director, officer or agent of the lender, or any third party acting as a joint venture, shall influence the results of an appraisal.
- Examples of such behavior includes the following.
  - Withholding or threatening to withhold future business from an appraiser, or demoting or terminating or threatening to demote or terminate an appraiser.
  - Excluding an appraiser from consideration for future engagement because the appraiser reports a value of a subject property that does not meet or exceed a minimum threshold.
  - Telling an appraiser an anticipated, estimated, encouraged or desired value for the subject property or a proposed or target amount to be loaned to the borrower, except that a copy of the sales contract for purchase transactions may be provided.
  - Withholding or threatening to withhold timely payment or partial payment for an appraisal report.
  - Conditioning the ordering of an appraisal report or the payment of an appraisal fee or salary or bonus on the opinion, conclusion, or valuation to be reached, or on a preliminary value estimate requested from an appraiser.
  - Express or imply a promise of future business, promotions or increased compensation.
  - Requesting an appraiser to provide an estimated, predetermined or desired value or comparable sales prior to the appraiser completing the appraisal,
  - Removing an appraiser from a list of qualified appraisers or adding an appraiser to an exclusionary list of ineligible appraisers in connection with the influencing or attempting to influence an appraisal.

Continued on next page

Prohibited Activities, (continued)	• Providing to an appraiser, appraisal company, appraisal management company, or any entity or person related to the appraiser, appraisal company, or appraisal management company, stock or other financial or non-financial benefits.
	• Any other act or practice that impairs or attempts to impair an appraiser's independence, objectivity or impartiality or violates law or regulation including, but not limited to. the Truth-in-Lending Act (TILA), Regulation Z or the Uniform Standard of Professional Appraisal Practice (USPAP).
	• Ordering or using a second appraisal unless:
	  ◦ there is documented evidence that the original appraisal was flawed, or
	  ◦ a second appraisal is required per the loan program.
	• If absolute lines of independence cannot be achieved as a result of the lender's size or limited staff, the lender must be able to clearly document that it has safeguards to isolate its collateral evaluation process from influence or interference from its loan production process.
	
	Note: The lender is allowed to request an appraiser to provide additional information and/or explain the basis of the valuation or correct factual errors in the appraisal report.

Misconduct	Any lender that reasonably believes an appraiser or appraisal company has violated applicable laws or is engaging in unethical practices must refer the matter to the applicable state appraiser certifying and licensing agency or other relevant regulatory bodies.

Review of Appraised Values

General

- The Underwriter must pay particular attention and apply extra due diligence for loans in which the appraised value is believed to be excessive or where the value of the property has experienced significant appreciation in a short period of time since the previous sale.
- If the underwriter has concerns with any aspect of the appraisal report that questions the reliability of the opinion of market value, the issues must be addressed with the original appraiser.
- Changes in the opinion of market value must be based on material and substantive issues and cannot be solely based on the appraisal report not supporting the proposed loan amount.
- If deficiencies cannot be adequately addressed and/or resolved, there are two options that the delegated Correspondent Lender should follow for addressing concerns:
  - ordering a field review of the original appraisal, or
  - ordering a new appraisal report.

  Note: For non-delegated originations, if the deficiencies cannot be adequately addressed and/or resolved, the Truist National Appraisal Review Team will determine if a field review or new appraisal is required.

- The Correspondent Lender must document the rational for requiring the new report being utilized.
- For either a field review appraisal or a new appraisal, the appraiser must be licensed or certified in the state in which the property is located.
- **Whenever a field review appraisal or a new appraisal is ordered, the opinion of market value as stated in the new appraisal report must be used on the transaction. The original appraisal is no longer eligible as it has been deemed defective.**
- If a field review appraisal is utilized, the original appraisal must be provided. The Submission Summary Reports (SSRs) should be provided, if available.
- The opinion of value may not be arbitrarily changed, nor is it acceptable to average the two opinions of market value in order to arrive at a final value conclusion.

Ineligible Appraisal Reports

Appraisal reports prepared by the following are not allowed:

- any employee of the lender (full time, part time, or contractor),
- any affiliate of the lender,
- any entity that is owned, in whole or in part, by the lender,
- any entity that owns, in whole or in part, the lender, and
- appraisers selected, retained or compensated in any manner by any third party (including mortgage brokers and real estate agents).

Continued on next page

Exceptions to Ineligible Appraisal Reports

Exceptions to the above Ineligible Appraisal Report restrictions are acceptable as follows:

- An appraiser employed by the lender that is not affiliated with the sales and production departments of the company.
- Employees in the sales and production functions of the lender that do not have ANY involvement in the approval, selection, recommending, retaining or influencing the selection of the appraiser or adding/deleting an appraiser to an approved or disapproved appraiser list.
- Employees in the sales and production functions that are not allowed to have any substantive communications with the appraiser, appraisal company or appraisal management company.
- An appraiser employed by the lender who's compensation does not depend on the subject properties determined value or the closing of the subject property loan transaction.
- The lender's appraisal functions are annually audited by an external auditor or are subject to federal or state regulatory examination. The lender must promptly report any adverse, negative or irregular findings of non-compliance to Fannie Mae or Freddie Mac, whichever is applicable and is not prohibited by law.

Communication with the Appraiser

- All members of the loan production staff are not allowed to have any communications with an appraiser or appraisal management company relating to or having an impact on valuation.
- Production staff includes, but is not limited to, the following employees:
  - Loan Officers,
  - Loan Officer Assistants,
  - Account Executives,
  - Sales Managers, and
  - Operations or Branch Managers.

Underwriter Responsibility

- When an appraisal is ordered, an underwriting condition should be added to the file requiring one of the 2 following forms:
  - *Appraisal Report Waiver form* which is required at least three (3) business days prior to closing, ***or***
  - the executed *Appraisal Report Acknowledgement* form.
- **The loan cannot be purchased by Truist without one (1) of these two (2) executed documents.**

Reference: See the following topic, "Borrower Receipt of the Appraisal" for additional information.

Borrower Receipt of Appraisal

General

- The Correspondent lender must provide a copy of any and all completed (approved, defective) appraisal report(s) and all property valuation(s) to the borrower(s) promptly, but not less than three (3) business days prior to closing the loan transaction. If the transaction is denied, withdrawn, and/or cancelled, any completed appraisal and/or property valuation must be sent to the borrower within 30 days of denial, withdrawal, and/or cancellation, if not sent prior to the status change.

  Note: An example of how the three (3) days are counted is as follows:
  - The borrower receives the appraisal on Tuesday.
  - The three (3) day count begins on Tuesday. The days counted would be Tuesday, Wednesday and Thursday.
  - Borrower can close on Thursday.

- The borrower is responsible for the initial cost of the appraisal, but the lender cannot charge the borrower for a copy of the appraisal.
- One of the following forms MUST be signed by all borrowers on the loan transaction and included in the loan file prior to purchase:
  - *Appraisal Report Waiver* – This form allows the borrowers to waive their right to receive a copy of the appraisal report three (3) business days prior to loan closing. This form must be signed by at least one borrower and may be signed anytime as early as loan origination, but not later than three (3) business days prior to closing. **This form cannot be signed *less than three (3) business days prior to closing or* at closing.**
  - *Appraisal Report Acknowledgement* – This form must be signed by at least one borrower to acknowledge their receipt of the appraisal report. This form cannot be pre-dated or pre-signed prior to the borrower's actual receipt of the appraisal report.
- If the borrower(s) sign the *Appraisal Report Waiver* form waiving their right to a copy of the appraisal report no less than three (3) business days prior to closing, the *Appraisal Report Acknowledgement* form is not required and vice versa. Only one of these executed forms is required to be in the loan file at the time of purchase by Truist.

Second Appraisals

General

Agency
Reference: See the “Second Appraisals” subtopic in the “Appraisal Requirements” topic in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for guidance.

Non-Agency Loans and Key Loans

- *Appraiser Independence Requirements* provides that the lender must not order, obtain, use, or pay for a subsequent appraisal in connection with a mortgage financing transaction unless:
  - there are indicators that the initial appraisal was inaccurate, not credible, or in violation of legal and/or professional standards related to nondiscrimination, and such indicators are clearly and appropriately noted in the mortgage file, or
  - such subsequent appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting requirements, and so long as the lender adheres to a policy of selecting the most credible appraisal, rather than the appraisal that states the highest value, or
  - a subsequent appraisal is required by law.
- The Underwriter is responsible for determining if an appraisal is defective.
- The Underwriter must document the file with reasons for relying on the selected appraisal.
- If an additional appraisal service is ordered because the first appraisal was deemed deficient, the underwriter must use the value of the second appraisal in determining the LTV/TLTV, regardless if the value is higher or lower than the original appraisal. However, if the second appraisal is also deemed deficient, the loan will be ineligible for sale to Truist.

  Note: Residential Appraisal Desk Reviews are not eligible as an additional appraisal service.

- Examples of a flawed appraisal may consist of:
  - inappropriate comparable sales,
  - unsupported adjustments,
  - comparable sales outside the market area,
  - erroneous representative of the improvements (e.g., room count, square footage, etc.)
  - appraisal bias.

- Loan program requirements for second appraisals are as follows:

Loan Program	Appraisal Requirements[1]
Key Loan	Loan amount or combined total loan amount, including second mortgages and home equity lines of credit < $1,500,000 require one (1) full appraisal.[2]
Key Loan	Loan amount or combined total loan amount, including second mortgages and home equity lines of credit >/= $1,500,000 and </= $3,000,000 require two (2) full appraisals

[1] For HELOCs, the total line of credit must be included (for qualifying) in the combined loan amount.
[2] Two full appraisals are required on family transfer transactions when the loan amount or combined loan amount is >/= $1,000,000.

Continued on next page

Second Appraisals, Continued

General, continued

References:

- See "Multiple Appraisals of the Subject Property" in the "Appraisal Age, Appraisal Update and Appraisal Use Requirements" subtopic in Section 2.01: Agency Loan Standard for additional information.
- See the "Appraisal Quality Matters" subtopic in the "Appraisal Analysis: Agency Loan Programs" topic in Section 1.07: Appraisal Standard of the *Correspondent Seller Guide* for additional information.

Determining Equity on Previous Home

General

- Some loan products may require documentation to establish equity in a borrower(s) current primary residence to reduce the amount of assets required in a purchase transaction for a new primary residence.
- Examples includes:
  - The borrower is purchasing a new primary residence; however their current residence is under contract but will not close prior to the new loan transaction closing,
  - The borrower is converting their current primary residence into a second home and is purchasing a new primary residence.
  - The borrower is converting their current primary residence into an investment property and needs to use the rental income for qualifying.
- To document the equity in the current primary residence, the Correspondent lender must order an appraisal for the current primary residence to determine current amount of equity in the property.

Non-Arm's Length/Conflict-of-Interest Transactions

General

Agency Loan Programs
Reference: See "Non-Arm's Length Transactions" in the "Eligible Transactions" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for standards.

Key Loan Program
Reference: See "Non-Arm's Length Transactions" in the "Eligible Transactions" topic outlined in Section 2.06: Key Loan Standard of the *Correspondent Seller Guide* for standards.

Property-Flipping Standards

Agency Loan Programs

- **Transactions Considered to be Property Flips**
  - The term property flip refers to a transaction in which a property is purchased and quickly resold for a significant profit. A large increase in property value coupled with a short time period between transactions may indicate that the property is being flipped. Properties targeted for property flips generally include properties that can be acquired at lower prices than other properties in the same neighborhood and often include real estate owned (REO) properties, properties subject to a "short sale", other distressed properties or newly constructed properties where the builder or developer must liquidate housing inventory quickly. A property involved in a flip may be resold on the same day or within days, weeks, or months of the purchase. In some cases, the seller of a property flip never holds title to the property, but instead sells or assigns their interest in a contract to purchase the property to a third party.
  - Property flips are not inherently illegal and not all transactions involving a rapid purchase and resale are improper. Legitimate property flips are acceptable transactions in connection with loans originated by Truist. Some indications of property flip transactions that may be legitimate include:
    - Sales of properties by a Government Sponsored Enterprise, state or federally chartered financial institution, mortgage insurer, or federal, state or local government agency
    - Property sales by employers or relocation agencies related to employee relocations
    - Sales of properties that are acquired by the property seller through inheritance, divorce, or as a result of a legal settlement or proceeding
    - Sales of properties that have been substantially improved by bona fide and verified renovations since the property was acquired by the property seller in which any increase in sales price over the seller's acquisition costs is representative of the market given the improvements to the home
    - Sales of properties that the property seller acquired at below market value after purchasing as a result of a distress sale (i.e. REO sale, short sale, tax lien sale, bankruptcy trustee's sale, etc.), where any increase in the sales price over the property seller's acquisition cost can be clearly shown to be a result of the difference (if any) in the market's reaction to distress sales and typical arms-length market sales.

Continued on next page

Agency Loan Programs, continued

- **Characteristics that are Red Flags for Improper "Property Flip" Transactions**
  - Certain characteristics of a transaction may be red flags that may be indicative of an improper property flip scheme. These characteristics include, but are not limited to:
    - Appraisal lacks sufficient analysis of all pertinent offerings or listings for the subject property, the contract of sale for the subject property, and the sales/transfer or listing history of the subject property and comparable sales
    - Comparable sales or listings used in the appraisal report are properties involving the same property seller and/or real estate broker as the subject property in an attempt to create an artificially inflated market
    - Transactions in which the property seller or any other party claims that the property was significantly renovated since being acquired by the property seller but the claimed renovations were not actually performed or cannot be sufficiently documented. Improper transactions often use inflated appraisals that falsely claim to be justified renovations.
    - Transactions in which there appear to be unusually large profits for the property's market area without appraisals that provide a reasonable explanation and justification for the large increase in property value.
    - Transactions in which the property was acquired by the property seller as a part of a distress sale in which the property seller, or a related party was a party to an option contract to purchase the property from the prior owner for an option price substantially below actual full market value. The option contract and the true market value of the property are typically not fully disclosed to the prior lender.
    - Transactions in which the property seller, or an agent representing the seller, arranges or assists in arranging financing, settlement services or the appraisal, including some cases where the property buyer and seller are represented by the same real estate agent or broker (dual agency). Some improper transactions result from collusion between the seller, real estate broker, lender/loan officer, and appraiser to defraud an unwitting buyer.
    - Transactions in which the contract seller is not the current owner of record.
    - Undisclosed "simultaneous", "double", or "back to back" closings or escrows.
    - Purchase transactions with undisclosed secondary financing, in which part of the purchase price is refunded to the buyer, or is quickly followed by a cash-out refinance. Such payments may or may not be reflected on the settlement statement.

Continued on next page

Agency Loan Programs, continued

- **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.

    Note: If the transaction involves the sale of land separate from the dwelling, confirm the property seller listed on the sales contract for the land is the owner of record for the land.

  - 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.

- **Best Practices for Loans Involving Property Flips or Suspected Property Flips**
  - Obtain a full appraisal with an interior and exterior inspection reported on the form appropriate for the property type being appraised.
  - Use automated valuation models and other collateral risk assessment tools in the origination and pre-funding quality control process to detect fraud and objectively measure the accuracy of the appraisal.
  - Ensure that the appraised value is adequately supported by market data and that appropriate comparable sales were utilized in the appraisal report.

Continued on next page

Agency Loan Programs, continued

- **Best Practices for Loans Involving Property Flips or Suspected Property Flips,** continued
  - Ensure that the appraisal sufficiently analyzes all pertinent offerings or listings for the subject property and includes sufficient analysis of the contract of sale for the subject property. Pay special attention to the appraiser's comments and analysis to determine if the appraiser provided adequate justification for any significant increase in sales price/value over the seller's acquisition costs. This analysis should be detailed enough to clearly explain the methodology and rationale used to justify the appraiser's conclusions on this issue. A statement by the appraiser that the new appraised value is justified by the current market conditions without detailed analysis and discussion is not sufficient.
  - Ensure that the appraisal lists any changes made to the property and includes photographs of the rehabilitation or renovation whenever an increase in sales price/value is justified in whole or part by improvements made to the property. Obtain further documentation that such improvements were made after the property seller acquired the property. Such documentation could include copies of receipts, contractor invoices, building permits issued or other similar documentation.
  - Perform additional due diligence by obtaining either a field or desk review of the appraisal or a second appraisal if it is suspected that the increase in sales price/value is unreasonable or unusually large within the context of the property's market.

- **Miscellaneous Underwriting/Closing/Title Issues**
  - Perform additional due diligence in reviewing the chain of title of the property including a search of the public land records for any recorded options contracts on the subject property and research any recent title transfer activity. Exercise additional due diligence to reconcile any differences in the owner of record as reported in the appraisal or any other documentation including the title report.
  - Exercise additional due diligence when analyzing sales contracts and other documentation. Carefully analyze sales contracts looking for terms indicating there has been assignment or sale of the seller's interest in a contract or option to acquire the property.
  - Analyze and review estimated and final Settlement Statements for unusual payments to parties not having a recorded interest on the property and abnormal real estate commission payments.

Continued on next page

Non-Agency Loan Programs

- **Overview**
  - Property-flipping is defined as the purchase of an existing property with the intention of quickly reselling the subject property for a considerable profit.
  - For the purposes of these standards, a "quick sale," is defined as any property resold six (6) months or less from the date of acquisition by the seller.
  - The underwriter has discretion to require any and/or all of the provisions contained in these standards (regardless of the time frame) in order to substantiate the appraised value.
  - Property-flipping, in and of itself, is not illegal; however, when an immediate resale is accompanied by acts of fraud or misrepresentation (appraisals with inflated property values and other misleading or fraudulent documentation), it can result in a predatory transaction.
  - For the purposes of these standards, "assignments of a contract for sale" fall under the definition of a property-flip and are not allowed unless used for loan transactions involving an employee being relocated.
  - These standards apply to conventional loans only. For government loans, refer to FHA and VA guidelines for specific requirements. For RD loans see Section 2.24: Rural Development Loan Standard of the *Correspondent Seller Guide*.
  - Truist strictly prohibits unacceptable property-flipping schemes; however, recognizes that there are legitimate business practices of buying real estate at a wholesale or discounted price and reselling it for the property's fair market value.
  - In order for Truist to consider these types of transactions, all of the requirements in this section must be met.
  - The following resale transactions are not defined as property flips; however, the property seller MUST be the owner of record in all cases:
    - property obtained through an inheritance,
    - property that is part of a settlement in a divorce agreement,
    - property that is part of an employee relocation program, and
    - property that is resold by a lender/servicer after acquisition of the property from a foreclosure or deed in lieu of foreclosure. Agents or subsequent owner(s) of the property that acquired the property directly from the lender are not considered the lender.

  Notes:

    - In cases of employee relocation programs, "assignments of contract for sale" are common and may be necessary. An "assignment of contract for sale" with a special Power of Attorney (POA) gives the relocation company limited ability to negotiate, execute and deliver real estate contracts for the subject property on behalf of the property seller (the employee). In these situations, the seller (the employee) remains the owner of record and it is acceptable for the relocation company to be identified as the seller on the sales contract. Therefore, execution of documents may be done by the relocation company/POA instead of the seller (the employee) of the property.

Continued on next page

Non-Agency Loan Programs, continued

- If an "assignment of contract for sale" is exercised due to an employee relocation program, documentation such as, but not limited to the following must be included in the loan file to evidence the "assignment."
  - copy of the Assignment of Contract for sale,
  - copy of Power of Attorney (if applicable),
  - copy of Appointment of Special Agency and Assignment of Proceeds form, and
  - copy of Employer Relocation Policy.

- **Owner of Record**
  - The property seller in a purchase money transaction or borrower in a refinance transaction must be the owner of record.
  - Examples of acceptable documentation, to be placed in the loan file include:
    - the appraisers analysis and conclusions in the appraisal report,
    - a copy of the recorded deed or mortgage,
    - 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 "back-to-back," "simultaneous closings," or "double" transaction closings to support the property acquisition, financing and closing.
  - In instances when the transaction is part of a corporate 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.

- **Underwriting Analysis**
  - A detailed underwriting analysis of the appraisal must be performed that includes:
    - the current contract for sale, including all addendums, for the subject property,
    - the current offering or listing for sale for the subject property, if sold utilizing a realtor,
    - the current ownership of the subject property, and
    - a three (3) year sale (or transfer) history of the subject property and a one (1) year sales history of the comparable sales.
  - If, during the brief period of ownership (six-month quick resale), the seller renovated the subject property resulting in a twenty percent (20%) or twenty thousand dollars ($20,000) increase over the previous sales price, the appraiser must provide interior photographs reflecting the recent improvement(s) described in the appraisal report.
  - It is critical to analyze and review the sales of the subject property and the sale price trend in relation to the appraiser's opinion of value to confirm that they are reasonable and representative of the market.
  - On those transactions where the appraisal was assigned to Truist, the underwriter may elect to require a new appraisal to substantiate the above requirements.

Continued on next page

Field Review Appraisal	• **Field Review Appraisal**
	  • The following standards apply for non-Agency conventional loan transactions only:
	    • For properties resold **ninety (90) days** or less following the date of acquisition by the seller **and** the sales price has increased by twenty percent (20%), or twenty thousand dollars ($20,000) **(whichever is higher)**, then Truist requires that a Field Review Appraisal be obtained.
	    • The “acquisition date” is defined as the date of settlement on the seller’s purchase of the subject property.
	    • The “resale date” is defined as the date of execution of the sales contract, by the buyer.

Declining Market Index

Overview

- The *Declining Market Index* must be reviewed for all loan transactions to determine if the subject's market is experiencing declining values.
- Truist will publish the *Declining Market Index*, which is a list of soft or declining markets, quarterly, or as market conditions change.
- The individual reviewing and/or approving the appraisal must review the *Declining Market Index* to determine if the subject property is impacted.
- It is imperative that the individual reviewing and/or approving the appraisal review the *Declining Market Index* and be familiar with the index as it relates to their local market.
- If the subject property is identified on the *Declining Market Index,* then the LTV/TLTV reductions indicated must be applied to the loan.
- The LTV.TLTV reductions indicated on the *Declining Market Index* do not apply to Agency, FHA, RD, or VA transactions.

Note: A property shall be deemed to be located in a declining market if either of the following apply:

- The appraiser marked the appraisal report that property values are declining or referenced that values are declining in the appraisal comments, or
- the *Declining Market Index* indicates a declining market.

Appraisal Report Forms and Exhibits: Agency Loan Programs

Overview

Reference: See "Appraisal Report Forms and Exhibits" in the "Appraisal Requirements" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for standards.

Appraisal Report Forms and Exhibits: Non-Agency Loan Programs

Overview

- Appraisal forms are designed for specific property types. The current version is dated March 2005.
- Lenders and appraisers are able to determine which report form should be used based on the type of property and property inspection required.
- Each of the appraisal report forms includes the purpose of the appraisal, scope of work, intended use, intended user, definition of market value, statement of assumptions and limiting conditions and appraiser certification.
- In addition, to support appraiser compliance with the Uniform Standards of Professional Appraisal Practice (USPAP), the revised appraisal forms include the following:
    - expanded comments areas,
    - sections to report the sales and listings histories of both the subject property and comparable sales,
    - direct questions that require the appraiser to report his/her analysis and conclusions on key area in a clear and concise “yes/no” format, and
    - expanded appraiser certification.
- The lender must provide the appraiser with the sales contract and all addenda in order for the appraiser to consider the financing and sales concessions in the transaction.
- If the sales contract is amended during the processing of the loan, the lender must provide the updated contract to the appraiser.
- Truist does not allow all comparable sales be provided by the builder and/or developer who have a financial interest in the sale or financing of the subject property; however:
    - when appraising new construction, the appraiser may need to rely solely on the builder of the property to provide comparable sales data, as this data may not yet be available through typical data sources such as public records or multiple listing services.
    - As such, 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.
- If the appraiser utilizes comparable sales outside of the subject’s neighborhood when closer comparable sales appear to be available, the appraiser must provide an explanation as to why he/she used the specific comparable sales.
- All new construction requires a full appraisal (Fannie Mae 1004/Freddie Mac Form 70). **Reduced appraisals are not allowed on new construction property.**

Continued on next page

***Uniform Residential Appraisal Report* (Fannie Mae 1004/Freddie Mac Form 70) (UAD)**

Purpose
The *Uniform Residential Appraisal Report* (Fannie Mae 1004/Freddie Mac Form 70) form is used to report an appraisal, based on an interior and exterior inspection of the following properties:

- One-unit properties,
- Units in planned unit developments (PUDs),
- A one unit property with an accessory unit, and
- For LPA loans, Form 70 may also be used for a detached condominium unit if the appraiser includes information about the project and its condition.

  Notes:
  - The appraiser must include an adequate description of the project, information about the homeowner's association fees and the quality of the project maintenance.
  - Applicable to manually underwritten and AUS (DU and LPA) processed transactions, except as noted.

Note: This form is not to be used to report an appraisal of a unit in a cooperative project. Truist does not currently offer financing for units in a cooperative project.

- All new construction requires a full appraisal. Reduced appraisals are not allowed on new construction property.
- The *Uniform Residential Appraisal Report* (Fannie Mae 1004/Freddie Mac Form 70) form must be UAD-compliant.

  Reference: See "Uniform Appraisal Dataset (UAD)" within the topic "Appraisal Analysis" for additional information.

- The appraiser MUST report the overall condition of the property or unit using Overall condition rating (C1, C2, C3, C4, C5, C6).
  - The appraiser must select one of the above ratings that best describes the overall condition of the subject property or unit. Only one selection is permitted. The rating for the subject property must match the overall condition rating that is reported in the Sales Comparison Approach section.
  - The appraiser must indicate 'Yes' or 'No' if there has been any material work done to the kitchen(s) or bathroom(s) in the prior 15 years. If 'No', the text should read 'No updates in the prior 15 years'. If 'Yes', additional information for kitchens and bathrooms must be provided. The appraiser must identify any work completed in the kitchen(s) and bathroom(s) along with the timeframes in which the work was completed. The appraiser must select one value for the Level of Work Completed (not updated, updated, remodeled) for both the kitchen(s) and bathroom(s). Timeframes (less than one year ago, one to five years ago, six to ten years ago, eleven to fifteen years ago, or timeframe unknown) represent the time period in which the majority of the improvements were completed.

Continued on next page

***Uniform Residential Appraisal Report* (Fannie Mae 1004/Freddie Mac Form 70) (UAD),** (continued)

Required Exhibits

- A street map that shows the location of the subject property and of all comparables that the appraiser used,
- The building sketch shall include all completed levels above grade within the dwelling, all basement area (both finished and unfinished) and any finished living areas that were not included in gross living area, but were given value by the appraiser, such as detached accessory units, carriage houses, living area above detached garages/barns, pool houses, game rooms, studios, etc.
  - A floor plan/building sketch with exterior dimensions is required on all transactions.
    - If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, a detailed floor plan sketch showing interior walls, doors, and interior dimensions is required.
- The appraiser must also include calculations to show how they arrived at the estimate for gross living area,
- Clear, descriptive photographs (in color) that show the front, back and a street scene of the subject property, and that are properly identified. Photographs must be originals that are produced either by photography or electronic imaging,
- Clear descriptive INTERIOR photographs of the following:
  - kitchen,
  - all bathrooms
  - main living room
  - examples of physical deterioration, if present, and
  - examples of recent updates, such as restoration, remodeling and renovations, if present.
- Clear, descriptive photographs (in color) that show the front of each comparable sale and that are appropriately identified. Generally, photographs should be originals that are produced by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's files are acceptable if they are clear and descriptive.
- Closely cropped photographs are not acceptable unless accompanied by a full explanation as to why the photographs are being presented in this manner.
- 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.

Continued on next page

***Individual Condominium Unit* (Fannie Mae 1073/ Freddie Mac 465) (UAD)**

Purpose

The *Individual Condominium Unit* (Fannie Mae 1073/Freddie Mac 465) form is used to report an appraisal, based on an interior and exterior inspection, of the following properties:

- a unit in a condominium project, or
- a condominium unit in a planned unit development (PUD)

  Notes:
  - The *Individual Condominium Unit* (Fannie Mae 1073/Freddie Mac 465) form is not to be used to report an appraisal of a unit in a cooperative project.
  - The *Uniform Residential Appraisal Report* (Fannie Mae Form 1004/Freddie Mac Form 70) may be used on detached "site" condos when the project consists **solely** of detached condominiums. The appraiser must include the project information in the appraisal report.

- The *Individual Condominium Unit* (Fannie Mae 1073/Freddie Mac 465) form must be UAD-compliant.

  Reference: See "Uniform Appraisal Dataset (UAD)" within the topic "Appraisal Analysis" for additional information.

- The appraiser MUST report the overall condition of the property or unit using Overall condition rating (C1, C2, C3, C4, C5, C6).
  - The appraiser must select one of the above ratings that best describes the overall condition of the subject property or unit. Only one selection is permitted. The rating for the subject property must match the overall condition rating that is reported in the Sales Comparison Approach section.
  - The appraiser must indicate 'Yes' or 'No' if there has been any material work done to the kitchen(s) or bathroom(s) in the prior 15 years. If 'No', the text should read 'No updates in the prior 15 years'. If 'Yes', additional information for kitchens and bathrooms must be provided. The appraiser must identify any work completed in the kitchen(s) and bathroom(s) along with the timeframes in which the work was completed. The appraiser must select one value for the Level of Work Completed (not updated, updated, remodeled) for both the kitchen(s) and bathroom(s). Timeframes (less than one year ago, one to five years ago, six to ten years ago, eleven to fifteen years ago, or timeframe unknown) represent the time period in which the majority of the improvements were completed.
- The appraisal of an individual condominium unit in a condominium project requires the appraiser to:
  - analyze condominium projects as well as the individual units,
  - pay special attention to the location of the individual unit within the project,
  - pay special attention to the project's amenities,
  - pay special attention to the amount and purpose of the owners' association assessment since marketability and value of the individual units in a project depend on marketability and appeal of the project,
  - indicate whether the developer/builder is in control of the Homeowner's Association (HOA), and
  - indicate if there is any commercial space in the project. If Yes, the appraiser MUST describe and indicate the overall percentage of the commercial space.

Continued on next page

***Individual Condominium Unit* (Fannie Mae 1073/ Freddie Mac 465) (UAD)** (continued)

New Projects

- For units in new (or recently converted) condominium projects, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject project.
- The comparison should help demonstrate market acceptance of new developments and the properties within them.

Established Projects

- For units in established condominium projects (those that have re-sale activity), the appraiser should use comparable sales from within the subject project if there are any available. Re-sale activity from within the subject project should be the best indicator of value for properties in that project.

Required Exhibits

- A street map that shows the location of the subject property and of all comparables that the appraiser used.
- A sketch of the subject unit that must indicate interior perimeter unit dimensions rather than exterior building dimensions. Generally, the appraiser must also include calculations to show how they arrived at the estimate for gross living area; however, for a unit in a condominium project, the appraiser may rely on the dimensions and estimate for gross living area that is shown on the plat. In such cases, the appraiser does not need to provide a sketch of the unit as long as they include a copy of the plat with the appraisal report.
- A floor plan/building sketch with exterior dimensions is required on all transactions
  - If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, a detailed floor plan sketch showing interior walls, doors, and interior dimensions is required.
- Clear, descriptive photographs (in color) that show the front, back and a street scene of the subject property, and that are appropriately identified.
- Clear descriptive INTERIOR photographs of the following:
  - kitchen,
  - all bathrooms,
  - main living room,
  - examples of physical deterioration, if present, and
  - examples of recent updates, such as restoration, remodeling and renovations, if present.
- Clear descriptive photographs (in color) that show the front of each comparable sale and that are appropriately identified.

  Note: Photographs of comparable rentals and listings are not required.

- Any other data, as an attachment or addendum to the appraisal report form, that is necessary to provide an adequately supported opinion of market value.

Reference: See Section 1.06: Condominium and PUD Approval Requirements Standard for additional information regarding appraisal requirements for condominium reviews.

Continued on next page

Small Residential Income Property **(Fannie Mae 1025/Freddie Mac 72)**

Purpose

The *Small Residential Income Property* (Fannie Mae 1025/Freddie Mac 72) form is used to report an appraisal, based on an interior and exterior inspection, of the following properties:

- a two- to four-unit property, or
- a two- to four-unit property in a planned unit development (PUD)

Note: A two- to four-unit property located in a condominium or cooperative project requires the appraiser to inspect the project and complete the project information section of the *Individual Condominium Unit Appraisal Report* or the *Individual Cooperative Interest Appraisal Report* and attach it to this report.

Required Exhibits

- A street map that shows the location of the subject property and of all comparables that the appraiser used.
- The building sketch shall include all completed levels above grade within the dwelling, all basement area (both finished and unfinished) and any finished living areas that were not included in gross living area, but were given value by the appraiser, such as detached accessory units, carriage houses, living area above detached garages/barns, pool houses, game rooms, studios, etc.
  - A floor plan/building sketch with exterior dimensions is required on all transactions.
    - If the floor plan is atypical or functionally obsolete, thus limiting the market appeal for the property in comparison to competitive properties in the neighborhood, a detailed floor plan sketch showing interior walls, doors, and interior dimensions is required.
  - The appraiser must also include calculations to show how they arrived at the estimate for gross building area.
- An *Operating Income Statement* (Form 216) is required if the property is an investment property (including a two- to four-family property in which the applicant will occupy one unit as a principal residence).
- The lender should make sure the appraiser has operating statements; expense statements related to mortgage insurance premiums, owner's association dues, leasehold payments, or subordinate financing payments; and any other pertinent information related to the property.
- Clear, descriptive photographs (in color) that show the front, back and a street scene of the subject property, and that are appropriately identified.

Continued on next page

***Small Residential Income Property* (Fannie Mae 1025/Freddie Mac 72),** (continued)	**Required Exhibits, continued**
	• Clear descriptive INTERIOR photographs of the following:
	  • kitchen
	  • all bathrooms
	  • main living room
	  • examples of physical deterioration, if present, and
	  • examples of recent updates, such as restoration, remodeling and renovations, if present.
	• Closely cropped photographs are not acceptable unless accompanied by a full explanation as to why the photographs are being presented in this manner.
	• Clear, descriptive photographs (in color) of the front of each comparable sale and that are appropriately identified.
	
	Note: Photographs of rentals and listings are not required.
	
	• Any other data, as an attachment or addendum to the appraisal report form, that is necessary to provide an adequately supported opinion of market value.

***Exterior Only Inspection Residential Appraisal Report* (Freddie Mac 2055 (UAD)**	This form is not eligible on Loan Prospector (LP) loans.
***Exterior-Only Inspection Condominium Unit Appraisal Report* (Freddie Mac 466) (UAD)**	This form is not eligible on Loan Prospector (LP) loans.

Continued on next page

***One-Unit Residential Appraisal Desk Review Report* (Freddie Mac 1033)**

- This report provides the lender with an opinion on the accuracy of the appraisal report under review.
- This report may be used for this purpose regardless of underwriting method.

***Appraisal Update and/or Completion Report* (Fannie Mae 1004D/Freddie Mac Form 442)**

Key Loan Program

- The *Appraisal Update and/or Completion Report* (Fannie Mae 1004D/Freddie Mac Form 442) form is intended to provide an interior and exterior inspection update of a **prior** appraisal and/or to report a **certification of completion**.
- This form can be used to update an existing appraisal if the property has not declined in value since the date of the original appraisal report, and/or confirm that the requirements or conditions established in an appraisal report have been met. If the property value has declined in value, a new appraisal is required.
- **Required Exhibits**
  - At a minimum, when completing the Appraisal Update portion of the report, a photograph of the front of the subject property must be included.
  - For a completion report, clear, descriptive photographs (in color) of the completed improvements must accompany this report form.
  - Any other data, as an attachment or addendum to the appraisal report form, that is necessary to provide an adequately supported opinion of market value.

Continued on next page

***One-Unit Residential Appraisal Field Review Report* (Fannie Mae Form 2000/Freddie Mac Form 1032**

Purpose
- This report is an exterior-only property inspection.
- This form is used for appraisal field reviews for one-unit appraisal reports.

Required Exhibits:
- A street map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.
- Clear, descriptive photographs (in color) that show the front, back, and a street scene of the subject property, and that are appropriately identified. Photographs must be originals that are produced either by photography or electronic imaging.
- Closely cropped photographs are not acceptable unless accompanied by a full explanation as to why the photographs are being presented in this manner.
- Clear, descriptive photographs (in color) that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the appraisal field review report. Generally, the photographs should be originals that are produced by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's files are acceptable if they are clear and descriptive.

***Two- to Four-Unit Residential Appraisal Field Review Report* (Fannie Mae Form 2000A/ Freddie Mac Form 1072)**

Purpose
- This report is an exterior-only property inspection.
- This form is used for appraisal field reviews for two- unit to four-unit appraisal reports.
- It is designed to complement the *Small Residential Income Property Appraisal Report* (Fannie Mae Form 1025/Freddie Mac Form 72), which is a streamlined appraisal report form for two- unit to four-unit properties.

Required Exhibits:
- A street map that shows the location of the subject property and of all comparables included in the appraisal report under review and any additional comparable sales provided by the review appraiser.
- Clear, descriptive photographs (in color) that show the front, back, and a street scene of the subject property, and that are appropriately identified. Photographs must be originals that are produced either by photography or electronic imaging
- Closely cropped photographs are not acceptable unless accompanied by a full explanation as to why the photographs are being presented in this manner.
- Clear, descriptive photographs (in color) that show the front of each comparable sale included in the appraisal report under review and any additional comparable sales described in the appraisal field review report. Generally, photographs should be originals that are produced by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's files are acceptable if they are clear and descriptive.
- Any data necessary to provide an adequately supported estimate of market value.

Continued on next page

Single-Family Comparable Rent Schedule **(Fannie Mae Form 1007/Freddie Mac Form 1000)**	• An *Operating Income Statement* (Fannie Mae Form 216/Freddie Mac Form 98) is required for investment property, including a 2-4 unit in which the borrower occupies one unit as a principal residence, regardless of whether the income is being used to qualify.
	• The form may be prepared by the borrower or appraiser, provided the following:
	  ◦ When the borrower prepares the *Operating Income Statement,* the appraiser's comments on the reasonableness of the projected operating income must be included on the form.
	  ◦ When the appraiser prepares the *Operating Income Statement,* the borrower must supply the necessary expense related statements (mortgage insurance premiums, HOA dues, leasehold payments, any subordinate financing payments, and any other pertinent information related to the property) for the appraiser.
	
	• A *Single-Family Comparable Rent Schedule* (Fannie Mae Form 1007) is required if the property is a single-family investment property.
	• The lender must ensure that the appraiser has operating statements; expense statements related to mortgage insurance premiums, homeowner's association dues, leasehold payments, or subordinate financing payments; and any other pertinent information related to the property.

Appraiser Certification to the Appraisal Report	Each of the appraisal report forms includes the appraiser's certification.
Appraisal Upgrades	• Upgrading does not occur on traditionally underwritten loans, as reduced appraisals are not eligible. • If a loan is resubmitted through DU/LP and the Report upgrades the appraisal, the appraisal must be upgraded to the form identified in the new Report, even if it has been ordered and received on a different form. • Underwriters may also upgrade an appraisal if deficiencies are noted in the initial report. • Limited representations and warranties still apply if the appraisal is upgraded.

Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP)

Non-AUS

- **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).
  - 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),
    - *Small Residential Income Property Appraisal Report* (Form 1025), and
    - *Individual Condominium Unit Appraisal Report* (Form 1073).
  - 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. It is the responsibility of the Correspondent Lender to supply Truist with both a "Successful" Summary Submission Report and Doc File ID for all loan files.
  - 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. Lenders may obtain detailed information on the UCDP page on Fannie Mae's website.

Continued on next page

Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP), continued

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Uniform Appraisal Dataset (UAD)**
  - 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),
    - *Uniform Residential Appraisal Report (Hybrid)* (Form 1004 Hybrid), 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.

- **Uniform Collateral Data Portal (UCDP)**
  - 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),
    - *Uniform Residential Appraisal Report (Hybrid)* (Form 1004 Hybrid),
    - *Small Residential Income Property Appraisal Report* (Form 1025), and
    - *Individual Condominium Unit Appraisal Report* (Form 1073).

Continued on next page

Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP), continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Overview**
  - This section contains information and requirements relating to the Uniform Appraisal Dataset (UAD), the Uniform Appraisal Dataset Specification ("UAD Specification"), which includes the UAD Field-Specific Standardization Requirements ("Appendix D"), and the Uniform Collateral Data Portal® (UCDP®).
  - The UAD standardizes key appraisal data elements for a subset of fields on certain uniform residential appraisal report forms and includes all data points required to complete these appraisal report forms.
  - The UAD Specification documents the business and technical requirements for the implementation of the UAD.

    Note: Appendix D provides field-specific standardization requirements for completing Freddie Mac's residential appraisal report forms that are required to be completed using the UAD. It lists the requirements for the data that must be included in specific forms and how the data should be reported on the appraisal report form.

  - The UCDP is a portal for the electronic collection and delivery of certain appraisal report forms and the associated appraisal data to Freddie Mac.

- **Uniform Appraisal Dataset (UAD)**
  - The following appraisal report forms must be completed using the UAD in accordance with Appendix D when reporting results of an appraisal:
    - *Uniform Residential Appraisal Report* (Freddie Mac Form 70)
    - *Uniform Residential Appraisal Report (Desktop)* (Freddie Mac Form 70D)
    - *Uniform Residential Appraisal Report (Hybrid)* (Freddie Mac Form 70H)
    - *Individual Condominium Unit Appraisal Report* (Freddie Mac Form 465)
    - *Individual Condominium Unit Appraisal Report (Hybrid)* (Freddie Mac Form 465H)
    - *Exterior-Only Inspection Individual Condominium Unit Appraisal Report* (Freddie Mac Form 466)
    - *Exterior-Only Inspection Residential Appraisal Report* (Freddie Mac Form 2055)
  - 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.
  - The UAD Specification may be amended from time to time. The current version can be found on www.freddiemac.com.
  - Lenders must validate that appraisal reports meet the requirements of Appendix D. Compliance with the UAD does not relieve the lender from other Freddie Mac appraisal requirements and does not affect lender representations and warranties regarding appraisals and the mortgaged premises.

Continued on next page

Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP), continued

Freddie Mac LPA, continued

- **Delivery of Appraisals through the UCDP**
  - For mortgages that require appraisal reports, the following appraisal report forms, including all exhibits and addenda, must be submitted to the UCDP and receive a "Successful" status before the delivery date of the mortgage:
    - *Uniform Residential Appraisal Report* (Freddie Mac Form 70)
    - *Uniform Residential Appraisal Report (Desktop)* (Freddie Mac Form 70D)
    - *Uniform Residential Appraisal Report (Hybrid)* (Freddie Mac Form 70H)
    - *Small Residential Income Property Appraisal Report* (Freddie Mac Form 72)
    - *Individual Condominium Unit Appraisal Report* (Freddie Mac Form 465)
    - *Individual Condominium Unit Appraisal Report (Hybrid)* (Freddie Mac Form 465H)
    - *Exterior-Only Inspection Individual Condominium Unit Appraisal Report* (Freddie Mac Form 466)
    - *Exterior-Only Inspection Residential Appraisal Report* (Freddie Mac Form 2055)
  - Lenders have the option of submitting Form 442, *Appraisal Update and/or Completion Report,* to UCDP.
  - Freddie Mac appraisal report forms not listed above must not be submitted through the UCDP.
  - Lenders may use the UCDP as a tool to aid in determining UAD compliance. However, the submission of appraisal report forms to the UCDP does not relieve the lender from Freddie Mac appraisal requirements, including the requirement that the appraisal must comply with Appendix D of the UAD and does not affect lender representations and warranties regarding appraisals and the mortgaged premises.
  - The lender’s ability to select an appraisal management company or other party in connection with the use of the UCDP does not constitute Freddie Mac's endorsement or approval of the appraisal management company or other party and does not relieve the lender of any obligations pursuant to the requirements outlined in our requirement documents, including the requirements related to the Freddie Mac Exclusionary List.

Continued on next page

Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP) (continued)

Freddie Mac LPA, continued

- **UCDP Messaging**
  - When an appraisal report is submitted to the UCDP, the lender may receive a variety of feedback messages designed to assist the lender in evaluating the appraisal report to determine whether it meets requirements (e.g., the accuracy of the appraiser's opinion of market value, UAD compliance, etc.). The lender should be prepared to address these feedback messages as part of their appraisal report review and property underwriting process.

    Note: The presence of one or more feedback message(s) with a "warning" severity indicator does not prevent the "successful" submission of an appraisal report to the UCDP, and does not deem the property ineligible or the appraisal report unacceptable. In addition, the absence of feedback messages does not represent Freddie Mac's acceptance of the appraised value or relief from lender representations and warranties. It is the responsibility of the Correspondent Lender to supply Truist with both a "Successful" Summary Submission Report and Doc File ID for all loan files.

  - For certain mortgages, the lender may receive a message indicating the appraisal is eligible for collateral representation and warranty relief.

    Reference: See the "Representations and Warranties on Property Value and Mortgaged Premises" subtopic presented in Section 2.01 Agency Loan Standard of the *Correspondent Seller Guide* for additional details and eligibility requirements related to this representation and warranty relief.

- **Information and Data Submitted to the UCDP**
  - Freddie Mac and its agents and contractors have the right to use, reproduce, modify, disclose, sublicense, distribute and retain all information and data submitted to the UCDP and designated for delivery to Freddie Mac, including, but not limited to, any field on an appraisal report and the contents thereof, all information and data entered by lender or on lender's behalf, and any other information and data obtained by or transmitted through the UCDP, (collectively, the "UCDP Data") as follows: (i) for all purposes related to the UCDP, the appraisal, the loan and any securities to which the UCDP Data relates, (ii) for analytic, modeling, quality control, fraud detection, information security and similar purposes, (iii) in connection with other data and services obtained or provided by Freddie Mac, (iv) for internal purposes, including, without limitation, system monitoring, maintenance and security, (v) as required to comply with applicable laws, regulations, court orders and the order of an agency that either regulates or has jurisdiction over Freddie Mac, and (vi) in order to enforce Freddie Mac's rights and remedies.

Continued on next page

Review of the Appraisal Report

Non-AUS

- **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 requirements are supportive of fair lending practices. This subtopic 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 "Confirmation and Documentation of the Current Owner" in the "Lender Responsibilities" subtopic in the "Appraisal Requirements" topic within Section 2.01 Agency Loan Standard for additional information).
  - The lender is responsible for validating that:
    - the property meets eligibility criteria;
    - 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 published Agency requirements. (See the "Appraisal Quality Matters" subtopic subsequently presented in this topic for additional information); and
    - the appraisal conforms with unacceptable appraisal practices (see "Unacceptable Appraisal Practices" presented in the "Appraisal Requirements" topic within Section 2.01 Agency Loan Standard for additional information).

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Freddie Mac requires that the lender obtain an appraisal report that accurately reflects the market value, condition and marketability of the property.
- Freddie Mac's requirements relating to the appraisal report (including the certifications) convey their expectations for the property valuation and appraisal reporting processes, the appraiser's accountability for the quality of the appraisal report, and the appraiser's compliance with both the Uniform Standards of Professional Appraisal Practice (USPAP) and Freddie Mac's requirements. Freddie Mac's requirements are supplemental to those of USPAP.

Continued on next page

Review of the Appraisal Report, continued

Freddie Mac LPA, continued

References:

- See the "Appraisal Report Forms and Exhibits" subtopic presented in the "Appraisal Requirements" topic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for more information on appraisal report forms.
- See the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic presented in the "Appraisal Requirements" topic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for appraisal completion certification requirements.

- The appraiser's description of the subject property must be complete and accurate, and the opinion of the market value of the subject property must be credible and adequately supported. In addition, the appraiser must have knowledge and experience appraising in the market area in which the subject property is located. This is particularly important when the property is located in a rural area because there are often a variety of different property types and land uses, which may result in a more challenging appraisal assignment.
- The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, their analysis and/or opinion of market value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.
- The sections further outlined in this subtopic are intended to provide the lender with information for reviewing the appraisal report and underwriting the property and are organized in the general order that the information is addressed on appraisal reports.

- **Owner of Record**
  - See "Lender Verification of Subject Property Owner of Record" in the "Lender Responsibilities" subtopic presented in the "Appraisal Requirements" topic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for guidance.

Continued on next page

Subject and Contract Sections of the Appraisal Report

Non-AUS

- **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. 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.
  - 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.

- **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.

Continued on next page

Subject and Contract Sections of the Appraisal Report, (continued)

- 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.

Reference: See the “Adjustments to Comparable Sales” subtopic subsequently presented in this topic for additional information regarding evaluating sales or financing concessions for comparables.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS standards, except as follows:

- If DU issues a message regarding a missing unit number for the subject property address, confirm through the USPS website that no unit number is required and document the file.
- **Special Feature Code Requirement**
  - Use SFC 165 to confirm the accuracy of the property address without a unit number.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Subject Section**
  - The "Subject" section of the appraisal report must identify the subject property by providing a complete property address and legal description, and by identifying the owner of public record for the property. For appraisal reports that are required to be completed using the Uniform Appraisal Dataset (UAD), the format of the property address must conform to the United States Postal Service (USPS) Address Standards in Publication 28. If a legal description is lengthy, the appraiser may attach it as an addendum to the report.
  - The occupancy status of the property must be identified as either owner, tenant or vacant as of the effective date of the appraisal. The property rights appraised must be reported as either fee simple or leasehold, and the report also must indicate whether the property is currently offered for sale or was offered for sale within the 12 months prior to the effective date of the appraisal. The appraisal report must also state the data source(s) used, offering price(s), date(s) and the days on market for the subject property.
  - The appraisal report must include the name of the lender on the lender/client line. Any applicable appraisal management company should be reported in the appraiser's certification section of the appraisal report form.

Continued on next page

Subject and Contract Sections of the Appraisal Report, (continued)

Freddie Mac LPA, continued

- **Subject Section**, continued
  - The occupancy status of the property must be identified as either owner, tenant or vacant as of the effective date of the appraisal. The property rights appraised must be reported as either fee simple or leasehold, and the report also must indicate whether the property is currently offered for sale or was offered for sale within the 12 months prior to the effective date of the appraisal. The appraisal report must also state the data source(s) used, offering price(s), date(s) and the days on market for the subject property.
  - The appraisal report must include the name of the lender on the lender/client line. Any applicable appraisal management company should be reported in the appraiser's certification section of the appraisal report form.

- **Contract Section**
  - Freddie Mac requires the contract for sale to include the sale or contract price, date of contract and loan charges to be paid by the property seller, and the financing and sales concessions to be paid by the property seller or any other interested party to the transaction.
  - The lender is responsible for the appraiser being provided the complete contract for sale for the subject property with the appraisal request regardless of whether the appraisal is ordered by the lender selling the loan to Freddie Mac or another lender. The appraiser must have the necessary and appropriate data sources for the area in which the subject property is located.
  - The "Contract" section of the appraisal report must include the results of the appraiser's analysis of the contract for sale, the contract price, the date of contract and to acknowledge if the property seller is the owner of public record, and the data source(s) used. The appraisal report must also include the total dollar amount and description of any financial assistance (loan charges, sales concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower.
  - For appraisal reports that are required to be completed using the UAD, the "Contract" section of the appraisal report must also indicate the type of sale for the transaction. Valid UAD sale types include REO sale, short sale, court ordered sale, estate sale, relocation sale, non-arms length sale and arms length sale.

Continued on next page

Neighborhood Section of the Appraisal Report

Non-AUS

- **Overview**
  - Neighborhood characteristics and trends influence the value of one- to four-unit residences and an analysis of the subject property's neighborhood is a key element in the appraisal process. A neighborhood is defined as a congruous group of complementary land users.

- **Neighborhood Analysis**
  - 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, 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.

Continued on next page

Neighborhood Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Neighborhood Analysis**, continued
  - In performing a neighborhood analysis, the appraiser:
    - collects pertinent data,
    - researches the neighborhood to identify 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 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, the proximity of a property to an airport, or the Federal Emergency and Management Agency (FEMA) designated flood zone in which the property is located. Characteristics that are not appraisal factors must not be considered in the valuation process either partially or completely. These characteristics include a person's sex, race, color, religion, disability, national origin, or familial status. Also, no 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 should be considered or reported.
  - 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

Continued on next page

Neighborhood Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Neighborhood Analysis**, continued
  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.

- **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.

Continued on next page

Neighborhood Section of the Appraisal Report, (continued)

Non-AUS, continued

- **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.

Trend of Property Values	Supply of Properties in the Subject Neighborhood	Marketing Time for Properties
• increasing, • stable, or • declining.	• shortage, • in-balance, or • over-supply.	• under three months, • three to six months, or • over six months.

  - The appraiser's analysis of a property must take into consideration all factors that affect value. 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 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, 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. The appraiser's analysis of the property value housing trend section (increasing, stable, declining) must include factual data from information sources such as, but not limited to, market data, home price indices, multiple listing services, public records, and/or models. The trend indicated in the appraisal report must reflect the overall movement of the market based on a minimum of 12 months of data.

Continued on next page

Neighborhood Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Price Range and Predominant Price**
  - The appraiser must indicate the price range and predominant price of properties in the subject's neighborhood. The price range must reflect high and low prevailing prices for one-unit properties, two- to four-unit properties, or condo 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's neighborhood. The age range should reflect the oldest and newest ages for one-unit properties, two- to four-unit properties, or condo 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.

Continued on next page

Neighborhood Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Present Land Use**
  - Fannie Mae's appraisal reports 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 do not share the same characteristic(s) or externalities.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- The "Neighborhood" section of the appraisal report requires the appraiser to: identify the neighborhood boundaries; describe the neighborhood characteristics as either "Urban," "Suburban" or "Rural"; describe the percent built-up as either "Over 75%," "25-75%" or "Under 25%"; describe the growth rate as either "Rapid," "Stable" or "Slow"; and to report on market conditions, one-unit housing trends, price and age ranges and present land uses for the properties in the neighborhood.

  Note: A neighborhood is defined as a congruous group of complementary land uses.

Continued on next page

Neighborhood Section of the Appraisal Report, (continued)

Freddie Mac LPA, continued

- Mortgages secured by residential properties in urban, suburban and rural market areas are eligible for delivery to Freddie Mac as long as the mortgaged premises is adequate collateral for the transaction based on the value, condition and marketability of the property. Market conditions and neighborhood or market area characteristics vary based on property location.
- Freddie Mac will purchase eligible mortgages in all markets whether market values are increasing, stable, or declining. The appraiser must perform an analysis of listings and contract sales in addition to closed sales to determine the trend of neighborhood property values and marketing times. Appraisers must pay particular attention to the use of sales or financing concessions in a neighborhood or market area as they may be an indication of over-supply, extended marketing times, and declining market values. The appraiser must include an explanation of their conclusions in the appraisal report.
- Neighborhood or market area characteristics that are typical in certain locations may not exist in other locations; therefore, they must be viewed in the context of the location of the property.

  For example: Urban locations often consist of a variety of different property types that have different uses. It is not unusual to find properties with mixed-uses such as residential properties that also have a commercial use in urban neighborhoods. Additionally, rural locations may have agricultural zoning and/or consist of a variety of different property types and land uses, such as large sites with an outbuilding(s), farms, ranches and undeveloped land, etc.

- A mixed-use property or the existence of non-residential property types or land uses such as agricultural properties, undeveloped land and land development properties within the neighborhood or market area are characteristics that the appraiser considers when performing the neighborhood or market area analysis. These non-residential properties or land uses in the neighborhood or market area do not make the residential properties in those locations ineligible. For example, a property located in a rural area where agricultural activities are prevalent may be eligible if it is determined the subject property is residential based on the subject property's characteristics and land use.

Continued on next page

Site Section of the Appraisal Report

Non-AUS

- **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. Because amenities, easements, and encroachments may either detract from or enhance the marketability of a site, the appraiser must reflect them in his or her 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 he or she indicates 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, non-conforming use of the land provided the use of the land and the appraisal analysis reflects any adverse effect that the non-conforming 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 the “Improvements Section of the Appraisal Report” section subsequently presented in this document.

Continued on next page

Site Section of the Appraisal Report, (continued)

Non-AUS, continued

- **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.

    Reference: See the "Properties with Two or More Parcels" subtopic presented in Section 2.01 Agency Loan Standard of the *Correspondent Seller Guide* for additional information.

- **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 "Environmental Hazards Appraisal Requirements" subsequently presented in this topic for additional information.

Continued on next page

Site Section of the Appraisal Report, (continued)

Non-AUS, continued

- **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 his or her 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.

  Reference: See "Road Maintenance Agreements" in the "Closing Documentation" topic presented in Section 1.08: Loan Delivery and Purchase Review Standard of the *Correspondent Seller Guide* for additional information.

- **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 flood insurance requirements, see the "Property and Flood Insurance" topic in Section 2.01 Agency Loan Standard of the *Correspondent Seller Guide.*

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS standards.

Continued on next page

Site Section of the Appraisal Report, continued

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Property Characteristics**
  - The "Site" section of the appraisal report must accurately describe the physical characteristics of the site, site improvements, site view and available utilities, and must fully analyze any locational factors affecting the site.

  - **Zoning**
    - The appraisal report must accurately state:
      - The zoning classification
      - A description of the zoning classification
      - Whether the land use of the subject property represents a legal, legal non-conforming (commonly referred to as grandfathered use), illegal use, or if there is no zoning

    - **Eligible Zoning Classification**
      - Freddie Mac does not limit mortgage purchases to mortgages secured by properties with specific zoning classifications. However, the subject property's zoning classification is an important characteristic to consider when determining whether the mortgage is eligible for sale to Freddie Mac. For example, if a property is zoned for agricultural use, the lender must ensure that the property is residential in nature, its residential use is a permissible use under the zoning classification and its use does not primarily involve commercial activities such as farming or ranching.

    - **Eligible Zoning Compliance**
      - The mortgaged premises must conform to the jurisdiction's zoning and land use requirements. The zoning compliance must be either legal or legal non-conforming; however, if a 1-unit property has an ADU that does not comply with the jurisdiction's zoning and land use requirements (illegal zoning compliance), the mortgaged premises may be eligible if the "Eligibility of a Property with an ADU" requirements, subsequently presented in the "Improvements Section of the Appraisal Report" subtopic, are met. Additionally, the zoning compliance for a 2- or 3-unit property with an ADU must be either legal or legal non-conforming. Mortgaged premises that are located in jurisdictions with no zoning are acceptable.
      - For mortgaged premises with a land use that is legal non-conforming, the appraisal report must reflect any adverse effect the non-conforming use has on the opinion of market value.
      - A mortgage is ineligible for sale to Freddie Mac if the mortgage is secured by property that is subject to coastal tideland, wetland or setback laws or regulations that prevent the rebuilding or maintenance of the property improvements if they are damaged or destroyed.

Continued on next page

Site Section of the Appraisal Report, continued

Freddie Mac LPA, continued

- **Property Characteristics,** continued
  - **Highest and Best Use**
    - For the mortgage to be eligible for sale to Freddie Mac, the appraiser must report that the mortgaged premises' present use represents the highest and best use of the property as improved (or as proposed per plans and specifications).
  - **Utilities**
    - The utilities serving the subject property must meet community standards. In addition, the comparable sales should have utilities similar to the subject property. When differences in utilities exist between the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum. In addition, the appraiser must evaluate the effect these differences have on the subject property's value or marketability.
  - **Streets**
    - The subject property must have legal ingress and egress by streets constructed and maintained in a manner that meets community standards. See “Mutual Easement Agreements” in the “Title Binder/Commitment Review” and “Title Policy Review” topics within Section 1.16: Title Insurance Standard of the *Correspondent Seller Guide* for requirements related to access provided by a private road, joint-driveway or easement.
    - The appraiser should use comparable sales with street access, ownership, maintenance and materials similar to the subject property. When differences in street access, ownership, maintenance or materials exist between the subject property and a comparable sale, the appraiser must justify and support adjustments, or lack of adjustments, made to the comparable sale. The appraiser should evaluate and explain the effect these differences have on the subject property's value or marketability.
  - **Site Size**
    - Freddie Mac does not limit mortgage purchases based on the size of the site. The appraiser must appraise the entire site. In addition, the comparable sales should have similar site sizes. When differences in site size exist between the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum, and the appraiser must explain the effect these differences have on the subject property's value or marketability.

Continued on next page

Site Section of the Appraisal Report, continued

Freddie Mac LPA, continued

- **Property Characteristics,** continued
  - **Additional Parcels**
    See the "Properties with Two or More Parcels" subtopic presented in Section 2.01 Agency Loan Standard for requirements.
  - **Flood Hazard Area**
    - The appraiser is not required to complete this section if the flood zone is determined by another party, such as a non-appraiser on the staff of the lender, a surveyor or a specialized flood zone determination company.
    - If the property is in a "Special Flood Hazard Area" (SFHA) as identified by the Federal Emergency Management Agency (FEMA) through the National Flood Insurance Program (NFIP), the appraiser must comment on and consider any impacts this has on the subject property's market value or marketability. See the "Property and Flood Insurance" topic in Section 2.01 Agency Loan Standard of the *Correspondent Seller Guide* for flood zone determination and flood insurance requirements.
  - **Environmental Issues and Detrimental Conditions**
    - **Impact of Contaminated Sites, Hazardous Substances and Other Adverse Conditions**
      - The appraiser must consider any known environmental issues such as contaminated sites or hazardous substances and other adverse conditions that affect the subject property or the neighborhood in which the property is located. The appraiser must also report the presence of contaminated sites or hazardous substances and other adverse conditions, and make appropriate adjustments to reflect any impact on market value, and comment on any effect on the marketability of the subject property.
      - Examples of matters about which the appraiser must note and comment include but are not limited to:
        - Any presence of asbestos, urea-formaldehyde or any similar insulation in the dwelling
        - Proximity of the subject property to a contaminated site
        - Proximity of the subject property to ground water contamination, chemical or petroleum spills or other hazardous substances that are expected to impact the area for more than one year
        - Proximity of the subject property to areas that may affect the value or marketability of the property including, but not limited to, the following:
          - Industrial sites
          - Waste or water treatment facilities
          - Commercial establishments (other than retail establishments that serve the neighborhood)
          - Airport approach paths
          - Flood plains
          - Landslide areas

Continued on next page

Site Section of the Appraisal Report, (continued)

Freddie Mac LPA, continued

- **Property Characteristics,** continued
  - **Environmental Issues and Detrimental Conditions,** continued
    - **Detrimental Conditions**
      - The appraiser must note the presence of detrimental conditions, such as expansive soils, underground mines or subsidence in the immediate area or on the subject property site. If the detrimental condition(s) is located on the subject property site, the appraisal report must be made "subject to" an inspection by an appropriately licensed professional or another person trained in the particular field of concern to determine if a repair or alteration is required. The appraiser must also consider the effect the condition(s) may have on estimating the subject property's market value and/or any effect on marketability.
      - For any appraisal report that is made subject to an inspection(s) due to a detrimental condition(s), the lender must include in the mortgage file evidence of repair, alteration or an inspection report that indicates the condition does not require repair or alteration. (See “Requirements for Verifying Completion” in the “Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements” subtopic presented in the “Appraisal Requirements” topic within Section 2.01 Agency Loan Standard for additional information related to appraisal reports completed "subject to" an inspection.)
  - **Information Supplied to the Borrower**
    - For purchase transactions, the lender must provide the borrower with information regarding environmental hazards that directly impact the subject property and have not been mitigated or remediated, unless the borrower already has notice of such hazard(s) through the purchase contract or property inspection.
    - If at any time before the note date the lender becomes aware of a hazard that adversely affects the market value, condition or marketability of the subject property, including the existence of a contaminated site, hazardous substance or other environmental condition that has not been mitigated or remediated, the lender must disclose to the borrower all information known to the lender about the hazard.

Continued on next page

Improvements Section of the Appraisal Report

Non-AUS

- **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 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 delivery 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. 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).

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Unique Housing Types**, continued
  - 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 he or she 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. 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," he or she 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.

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Non-AUS, continued

- **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.

    Reference: See the “Properties with Solar Panels” subtopic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for additional guidance.

- **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, he or she 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.

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Non-AUS, continued

- **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 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 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 or condo 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 the "Appraisal Report Forms and Exhibits" subtopic, within Section 2.01: Agency Loan Standard, 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.

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Gross Living Area**, continued
  - 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 he or she did not use a gross building area comparison, and
    - clearly describes the comparisons that were made.

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Accessory Dwelling Units**
  - An accessory dwelling unit (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 the "Accessory Dwelling Units" subtopic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for complete ADU requirements.
  - **Manufactured Home Accessory Dwelling Unit**
    - A mortgage on a one-unit dwelling that contains a manufactured home accessory dwelling unit (ADU) is not eligible.
  - 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.

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Non-AUS, continued

- **Accessory Dwelling Units**, continued
    - **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 circumstances), 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.
            - 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.
- **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.
- **Mixed-Use Properties**
  Reference: See the "Mixed-Use Properties" subtopic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for additional guidance.

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Non-AUS, continued

- **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.
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.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Overview**
    - The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability of the subject property.

- **Rehabilitated or Renovated Property**
    - For properties that have recently undergone rehabilitation or renovation, the appraiser must list the changes made and provide photographs of the rehabilitation or renovation. The photographs must meet the requirements outlined in this document.

- **Non-Conformity to the Neighborhood and Non-Traditional or Unique Property Types**
    - When the subject property does not conform to its neighborhood in terms of type, design, age, materials or techniques used in its construction, the appraiser must evaluate the effect the nonconformance has on the property's value and marketability.

Continued on next page

Improvements Section of the Appraisal Report, continued

Freddie Mac LPA, continued

- **Non-Conformity to the Neighborhood and Non-Traditional or Unique Property Types,** continued
  - Mortgages secured by non-traditional types of properties are eligible for delivery to Freddie Mac. Examples of non-traditional or unique property types include, but are not limited to, "barndominiums" (barn conversions or barn-style buildings), "shouses" (living-space and work/storage combinations), berm homes, log homes and geodesic dome dwellings. The appraiser must demonstrate that the dwelling type or style is marketable and must ensure the property has an acceptable quality and condition rating. Additional analysis may be required to determine whether the design or style represents a mixed-use configuration. (See the "Mixed-Use Properties" subtopic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for mixed-use requirements.)
  - The appraiser may use traditional homes as comparable sales for non-traditional or unique properties as long as the appraiser determines and adjusts for any differences between the subject property and the comparable sales and can justify and support the use of the comparable sales in the appraisal report.

- **Remaining Economic Life**
  - Freddie Mac does not require an estimate of remaining economic life.

- **Properties with Energy Efficient Improvements**
  - Energy-efficient features (e.g. photovoltaic systems, water efficient improvements, energy-efficient windows) or high-performing energy-efficient homes must be identified and any impact to market value must be recognized in the appraisal report. The contributory value of energy improvements and any premium paid for a high-performing energy-efficient home must be measured based on the market reaction, similar to any other property feature.
  - Appraisers must be familiar with energy reports, energy ratings or other new concepts that may be developed to identify the energy efficiency of a home. If relied upon, any reports must be generally acceptable and, if available, these reports and information must be included in the appraisers' analysis.
  - If the high-performing energy-efficient home or energy improvements are new to the market, there may be a lack of sales with similar features or a lack of data available from traditional data sources. As a result, additional due diligence on behalf of the appraiser may be necessary. The Appraisal Institute's Form 820.05, Residential Green and Energy Efficient Addendum, may be used to collect and report energy efficiency data associated with a property. When performing the analysis to determine the contributory value of the energy efficient improvements, the appraiser should consider whether methods such as the income approach, cost analysis, discounted cash flows, market surveys or any other applicable methods are appropriate. If the appraiser's analysis concludes an adjustment is necessary, the appraiser must justify and support the analysis and conclusions. This information may be included in an addendum or in supplementary documentation, if necessary.
  - Solar panels subject to a lease agreement, power purchase agreement (PPA) or similar type of agreement may not be included in the appraised value of a property. See the "Properties with Solar Panels" subtopic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for additional guidance.

Continued on next page

Improvements Section of the Appraisal Report, continued

Freddie Mac LPA, continued

- **Properties with Energy Efficient Improvements,** continued
  - Visit the following web pages for lender resources related to energy-efficient properties and the appraisal of properties with energy-efficient features:
    - Resources provided by The Appraisal Institute (including the use of the Residential Green and Energy Efficient Addendum)
    - The Home Energy Rating System (HERS®) Index provided by the Residential Energy Services Network (RESNET®)
    - The Home Energy Score provided by the U.S. Department of Energy's Better Buildings® initiative
    - Ei Value - tool used in the valuation of photovoltaic systems and/or the energy related efficiency of a property (income and cost approaches)
    - PV Value - tool used in the valuation of photovoltaic systems (income approach)

- **Unusual Floor Plans**
  - An unusual floor plan, such as a home with tandem bedrooms or a bathroom off the kitchen, does not make a property ineligible for financing. The appraiser should address whether an unusual floor plan or similar obsolescence is also found in other properties in the neighborhood, and to the extent possible, comparables used should also have similar obsolescence in order to demonstrate marketability and support value.

- **Eligibility of a Property with an ADU**
  - **Eligible Properties with ADUs**
    - Freddie Mac will purchase an eligible mortgage secured by a 1-, 2- or 3-unit property that has one ADU.
    - An ADU is an additional finished area that:
      - Includes a kitchen, bathroom, and separate entrance
      - Is independent of the primary dwelling unit
      - Is smaller in size than the primary dwelling unit (i.e., the ADU's finished area is less than the primary dwelling unit's finished area, and
      - Contributes less to the value of the property than the primary dwelling unit
    - Examples of eligible ADU configurations include:
      - A 1-, 2-, or 3-unit dwelling with an ADU above a garage or outbuilding,
      - A dwelling with an attached or detached ADU, or
      - A dwelling with an ADU in the basement.

  - **Ineligible Properties with ADUs**
    - Mortgages secured by the following ADU configurations are not eligible for purchase by Freddie Mac:
      - A 2- or 3-unit property with an ADU that does not comply with zoning and land use requirements (illegal zoning)
      - A 1-, 2- or 3-unit property with two or more ADUs
      - A 4-unit property with an ADU

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Freddie Mac LPA, continued

- **Eligibility of a Property with an ADU**, continued
  - **Appraisal Requirements**
    - The appraiser must determine whether the subject property has an ADU and report the appraisal on the appropriate form. When determining whether the subject property has an ADU, the appraiser must consider zoning and land use requirements and all property characteristics, specifically the unit's utility and the property's highest and best use.
    - If the appraiser determines the subject property has an ADU, the appraisal report must include:
      - A detailed description of the ADU
      - Any effect the ADU has on the market value or marketability of the subject property
      - Specific information about the ADU, including but not limited to its general condition, its room count (including the number of bedrooms and baths) and the finished square footage area

  - **For Properties with Legal or Legal Non-Conforming Zoning Compliance or Locations Without Zoning**
    - If the subject property ADU complies with the zoning and land use requirements (legal or legal non-conforming or locations without zoning), the appraisal report must include the following:
      - At least one comparable sale with an ADU, when available, is required to demonstrate the property's conformity and marketability to its market area.
        - If a recent comparable sale with an ADU is not available in the subject's market area, the appraiser can use an older sale with an ADU from the subject's market area or a sale with an ADU from a competing market area as a comparable sale or as supporting market data.
        - The appraiser may always use more than three comparable sales, including contract sales (pending sales) and/or current listings, to justify and support his or her adjustments and opinion of market value, as long as at least three are actual closed (settled) sales.
      - If a comparable sale with an ADU is not available, the appraiser can use a comparable sale in the subject market area without an ADU as long as the appraiser can justify and support such use in the appraisal report. Freddie Mac will purchase eligible mortgages secured by a property with an ADU if the appraiser can develop a credible opinion of market value for the property.

    Truist Note: If rental income from an ADU on a subject 1-unit primary residence is used to qualify the borrower(s), see "Rental Income from an ADU on a Subject 1-Unit Primary Residence" in the "Rental Income" subtopic within Section 2.01: Agency Loan Standard for additional guidance regarding comparable sales and rental requirements.

Continued on next page

Improvements Section of the Appraisal Report, (continued)

Freddie Mac LPA, continued

- **Eligibility of a Property with an ADU**, continued
  - **Appraisal Requirements**, continued
    - **Comparable Requirements for Properties with Illegal Zoning Compliance**
      - If the subject property ADU does not comply with the zoning and land use requirements (illegal zoning), the mortgage is eligible if:
        - The subject property is a 1-unit property with an ADU
        - The appraisal contains at least two comparable sales with an ADU that is non-compliant with the zoning and land use requirements (illegal zoning) to demonstrate the marketability of the subject property to its market area; and
        - The lender confirms that the existence of the ADU will not jeopardize future hazard insurance claims

      Note: 2- or 3-unit properties with an ADU that do not comply with the zoning and land use requirements (illegal zoning) are not eligible for sale to Freddie Mac.

  - **Manufactured Home ADUs**
    - A mortgage secured by a 1-, 2-, or 3-unit property that contains a manufactured home accessory unit is not eligible.

  References:
  - See "Rental Income from an ADU on a Subject 1-Unit Primary Residence" in the "Rental Income" subtopic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for additional guidance.
  - See the "Rental Income from a One-Unit Primary Residence with an Accessory Unit" subtopic within Section 2.01a: Fannie Mae HomeReady® and Freddie Mac Home Possible® Mortgages Standard for additional guidance for HomeReady and Home Possible mortgage loans.

- **Required Permits**
  - If the appraiser notes that additions or alterations were made without required permits, the appraisal report should also contain comments on the quality and appearance of the work.

- **Mixed-Use Properties**
  Reference: See the "Mixed-Use Properties" subtopic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for additional guidance.

Continued on next page

Improvements Section of the Appraisal Report, continued

Freddie Mac LPA, continued

- **Outbuildings on a Property**
  - Outbuildings on a property, such as barns or stables, must be considered in the underwriting process to determine whether the property is primarily residential or non-residential. A property with a small barn or stable may be acceptable if the contributory value of the outbuilding(s) is minimal in relation to the total appraised value of the subject property. The appraiser must demonstrate in the appraisal report (e.g., through the use of comparable sales, pending sales or listings) that these characteristics are typical for residential properties in the market area.
  - When a property has a large outbuilding, such as a large barn, or silo, or multiple outbuildings or facilities for farm-type animals, it may indicate that the property is agricultural or non-residential regardless of whether the appraiser assigns value to these improvements, and ineligible as security for a Freddie Mac mortgage.

Property Condition and Quality of Construction of the Improvements

Non-AUS

- **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.

Continued on next page

Property Condition and Quality of Construction of the Improvements, (continued)

Non-AUS, continued

- **Property Condition**
  - Lenders must take the necessary steps to confirm that a property meets Fannie Mae's condition requirements as outlined in this subtopic.
  - 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. **Note**: 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 Identifying Property Condition; Definitions of Not Updated, Updated, and Remodeled; and Identifying Quality of Construction in this subtopic for details.)
	The appraiser must identify • items that require immediate repair; and • items where maintenance may have been deferred, which may or may not require immediate repair.
	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 standardized condition ratings when identifying the condition of the improvements for the subject property and comparable sales. Click here for the listing of the standardized condition ratings.

- **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.

Continued on next page

Property Condition and Quality of Construction of the Improvements, (continued)

Non-AUS, continued

- 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 property condition of C5 prior to delivery of the loan to Truist. See “Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property” in this subtopic 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	Little or no updating or modernization. This description includes, but is not limited to, new homes. 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.
Updated	The area of the home has been modified to meet current market expectations. These modifications are limited in terms of both scope and cost. 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 not include significant alterations to the existing structure.
Remodeled	Significant finish and/or structural changes have been made that increase utility and appeal through complete replacement and/or expansion. 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.

Continued on next page

Property Condition and Quality of Construction of the Improvements, (continued)

Non-AUS, continued

- **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 subtopic 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 standardized quality ratings when identifying the quality of construction for the subject property and comparable sales. Click here for the listing of the standardized quality ratings.

- **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 to Truist. See "Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property" in this subtopic for requirements when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Continued on next page

Property Condition and Quality of Construction of the Improvements, (continued)

Non-AUS, continued

- **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 "Environmental Hazards Appraisal Requirements" in the "Appraisal Analysis: Agency Loan Programs" topic presented in Section 1.07: Appraisal Standard for additional information on properties affected by environmental hazards.
  - If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must identify and describe the deficiencies and the property must be appraised subject to a satisfactory inspection by a qualified professional. The appraisal may have to be revised based upon the results of the inspection. If so, the report must indicate the impact, if any, on the final opinion of value. The lender must review the revised appraisal report to confirm that no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property are indicated. A certification of completion is required to confirm the necessary alterations or repairs have been completed prior to delivery of the loan.

- **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 alterations, or "subject to" an inspection by a qualified professional.

Continued on next page

Property Condition and Quality of Construction of the Improvements, (continued)

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements, except as follows:

- **Identifying Property Condition**
  - Properties with a condition rating of C5 or 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 property condition of C4 prior to delivery of the loan to Truist. See "Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property" in this subtopic for information related to completing appraisals on properties with safety, soundness, or structural integrity deficiencies.
- **Appraisals Completed "As Is"**
  - Properties with condition ratings C1, C2, C3, and C4 as previously defined are eligible in "as is" condition. For properties with initial condition ratings of C5 or C6, the appraisal must be completed subject to completion of the deficient items(s) with a minimum resulting condition rating of C4. See "Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property" in this section for additional details when completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

Continued on next page

Property Condition and Quality of Construction of the Improvements, continued

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The appraisal report must contain an accurate description of the improvements and describe any factors that may affect the market value or marketability of the subject property. The appraiser is responsible for reporting the condition and quality that best describes the overall condition and quality of the subject property. For appraisal reports that are required to be completed using the Uniform Appraisal Dataset (UAD), the appraiser must utilize the condition and quality ratings and the level of updating definitions identified here. For appraisal reports not required to be completed using the UAD, the UAD specifications may be utilized to the extent that they are applicable to the particular appraisal report form.
- 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 then select the rating that best reflects the holistic view of the property. However, if any portion of the improvements has a quality of construction consistent with the Q6 quality rating, the property must be identified with a Q6 quality rating. If any portion of the improvements is impacted by one or more deficiencies that are consistent with a C5 or C6 condition rating, the property must be identified with a C5 or C6 condition rating.
  - 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. The condition and quality ratings for comparable properties must also be made on an absolute basis and reflect the property as of the date of sale of the comparable property.
  - As necessary, provide additional commentary, descriptions and explanations to enable the intended users of the appraisal to understand the property condition and quality.

Continued on next page

Property Condition and Quality of Construction of the Improvements, continued

Freddie Mac LPA, continued

- **Properties with a Q6 Quality Rating**
  - **A mortgaged premises with an overall quality rating of Q6 is not acceptable collateral to secure a mortgage sold to Freddie Mac unless** all issues that caused the property to be rated with a Q6 quality rating are cured prior to delivery of the mortgage. In such cases, when an appraisal report is delivered with the mortgage, the appraisal report must be completed "subject to" and the reported quality rating must reflect the hypothetical condition that the repairs or alterations have been completed. See "Requirements for Verifying Completion" in the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic presented in the "Appraisal Requirements" topic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for additional information related to appraisal reports completed "subject to" repairs or alterations and for additional information related to PDRs with required repairs.
  - Examples of conditions that indicate the property has a Q6 quality rating cured include, but are not limited to:
    - Quality such that the property is not habitable as a year-round residence
    - Minimal or non-existent electrical, plumbing, and/or other mechanical systems
    - Substandard additions to the original structure, or
    - Any other quality related items needed to make the mortgaged premises acceptable to typical purchasers in the market area in which the property is located

- **Properties with a C5 or C6 Condition Rating**
  - **A mortgaged premises with an overall condition rating of C5 or C6 is not acceptable collateral to secure a mortgage sold to Freddie Mac unless** all issues that caused the property to be rated with a C5 or C6 condition rating are cured prior to delivery of the mortgage. In such cases, when an appraisal report is delivered with the mortgage, the appraisal report must be completed "subject to" and the reported condition rating must reflect the hypothetical condition that the repairs or alterations have been completed. See "Requirements for Verifying Completion" in the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic presented in the "Appraisal Requirements" topic within Section 2.01 Agency Loan Standard for additional information related to appraisal reports completed "subject to" repairs or alterations and for additional information related to PDRs with required repairs.

Continued on next page

Property Condition and Quality of Construction of the Improvements, (continued)

Freddie Mac LPA, continued

- **Properties with a C5 or C6 Condition Rating**, continued
  - Examples of deficiencies that indicate the property is in C5 or C6 condition include, but are not limited to:
    - Active roof leaks
    - Missing or damaged exterior siding or soffits that would allow water or other elements to enter the dwelling
    - Missing or damaged interior drywall or plaster such that the functional utility of the subject property is negatively impacted
    - Standing water in the property, water seepage/intrusion or significant plumbing leaks
    - Uncapped wiring
    - Curled, cupped, or missing roof shingles
    - Damaged or unfinished floor coverings such that the subfloor is exposed in one or more rooms such that the functional utility of the subject property is negatively impacted
    - Damaged or failing foundations
    - A mechanical system where it is apparent it has exceeded its expected life or mechanical systems that are non-functional, or
    - A sanitary system with evidence of failure

- **Appraisal Reports Completed "Subject To" an Inspection**
  - If an appraiser observes conditions that require further investigation, the appraiser must make the appraisal report "subject to" an inspection by an appropriately licensed professional or another person trained in the particular field of concern. Examples of conditions that may require an inspection include, but are not limited to, observations of severe cracks in foundations or walls, evidence of infestation, or a potentially contaminated water source.
  - The lender must include in the mortgage file evidence of the repair or an inspection report that indicates the condition does not require repair. See "Requirements for Verifying Completion" in the "Requirements for Verifying Completion and Postponed Improvements / Eligibility of a Property with Incomplete Improvements" subtopic presented in the "Appraisal Requirements" topic within Section 2.01 Agency Loan Standard for additional information related to appraisal reports completed "subject to" an inspection.

Continued on next page

Property Condition and Quality of Construction of the Improvements, (continued)

Freddie Mac LPA, continued

- **Existing Properties with Minor Needed Repairs or Deficiencies or Deferred Maintenance**
  - Freddie Mac allows an appraisal report to be completed "as is" for an existing property when there are minor needed repairs or deficiencies, or deferred maintenance. The appraiser must make appropriate adjustments for these conditions in the appraisal report, when necessary.
  - Examples of acceptable minor needed repairs or deficiencies, or deferred maintenance items include, but are not limited to:
    - Worn floor finishes or coverings
    - Minor cracks in windows
    - Minor damage to interior walls
    - Damaged or missing interior doors
    - Damaged or missing window screens or cabinetry doors
    - Missing handrails
    - Damaged or deteriorating countertops
    - Missing hardware such as handles
    - Missing light fixtures, electrical panel/breaker box covers, electrical switches or faceplates
    - Damaged or missing trim
    - Minor plumbing leaks that do not cause damage (such as dripping faucets), or
    - Deteriorated sidewalks

- **Detrimental Conditions**
  - See “Environmental Issues and Detrimental Conditions” in the “Site Section of the Appraisal Report” subtopic previously presented in this topic for guidance.

Continued on next page

Sales Comparison Approach Section of the Appraisal Report

Non-AUS

- **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 his or her 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 the "Neighborhood Section of the Appraisal Report" subtopic 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, realtors, 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.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS standards.

Continued on next page

Sales Comparison Approach Section of the Appraisal Report, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- Freddie Mac requires the use of the sales comparison approach in the development of the appraisal report.

- **Market Area Analysis and Market Condition Adjustments**
  - See "Market Area Analysis and Market Condition Adjustments" in the "Adjustments to Comparable Sales" subtopic subsequently presented in this topic for guidance.

- **Sales and Financing Concessions**
  - See "Sales and Financing Concessions" in the "Adjustments to Comparable Sales" subtopic subsequently presented in this topic for guidance.

- **Date of Sale and Time Adjustments**
  - See "Date of Sale and Time Adjustments" in the "Adjustments to Comparable Sales" subtopic subsequently presented in this topic for guidance.

- **Location**
  - For appraisal report forms that are required to be completed using the UAD, the appraisal report form must include a rating of the location of the subject property and each comparable sale by providing a rating of either "Neutral," "Beneficial" or "Adverse." The location rating is for the location of the subject property within the market area and is not a rating for the overall neighborhood or market area. See *Appendix D – Field Specific Standardization Requirements of the Uniform Appraisal Dataset Specification ("UAD Specification")* for additional requirements regarding location.
  - The location rating (which will be abbreviated as N, B, or A in the appraisal report form) should describe the overall effect on value and marketability of the location of the property within the market area.
  - The lender should be aware that there are varying conditions that characterize different types of locations. Conditions that are typical of certain locations may not be present in other locales. This does not mean that the conditions are unacceptable, rather that they must be viewed in context with the nature of the area in which the mortgaged premises is located.

    For example:
    - When the mortgaged premises is in a suburban or urban location, the appraiser would most likely use comparable sales in the immediate vicinity of the property since suburban and urban locations are usually more densely developed.

Continued on next page

Sales Comparison Approach Section of the Appraisal Report, (continued)

Freddie Mac LPA, continued

- Rural locations often have less real estate sales activity than more populated areas. Property sales in rural locations often involve a variety of property types and may have relatively large parcels as compared to other locations. Given the potential challenges with appraising properties in these market areas, the appraiser must be knowledgeable about the varying conditions that characterize properties in a particular geographic area. In such cases, appraisers may have to use older comparable sales, comparable sales that are located a considerable distance from the subject property or comparable sales that are not similar to the subject property. The appraiser must justify and support such use in the appraisal report. For example, if the subject property is a ranch-style home on a large parcel of land (e.g., 44 acres), the most relevant comparable sales may be two-story homes located on smaller parcels (e.g., 6-12 acres) that are located some distance from the subject property (e.g., 8-18 miles away). If an appraiser uses comparable sales such as the ones in this example, he or she must provide a reasonable justification for the use and make appropriate adjustments to account for the differences between the properties and/or location.

- **View**
  - For appraisal report forms that are required to be completed using the UAD, the overall view associated with the subject property and each comparable sale must be rated as either "Neutral," "Beneficial" or "Adverse." The UAD view rating (which will be abbreviated as N, B, or A in the appraisal) should describe the overall effect on value and marketability of the view associated with the property. See *Appendix D – Field Specific Standardization Requirements of the UAD Specification* for additional requirements regarding view.

  Reference: See the “Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP)” subtopic previously presented in this topic for additional information.

- **Condition and Quality**
  - In all appraisals, appropriate adjustments must be made for differences in condition and quality between the subject property and each comparable property to reflect the value, if any, of the differences to the market. Sometimes, it may be appropriate for an appraiser to make an adjustment for differences in quality and condition between the subject property and a comparable property even though the properties have the same UAD quality or condition rating.

  References:
  - See the “Property Condition and Quality of Construction of the Improvements” subtopic previously presented in this topic for additional information related to the property condition and quality of construction.
  - See the “Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP)” subtopic previously presented in this topic for additional information.

Continued on next page

Sales Comparison Approach Section of the Appraisal Report, (continued)

Freddie Mac LPA, continued

- **Selection of Comparable Sales and Analysis**
  - See "Selection of Comparable Sales and Analysis" in the "Comparable Sales" subtopic subsequently presented in this topic for guidance.

- **Sales Comparison Approach for 2- to 4-Unit Properties**
  - In addition to the other requirements in this section, the appraisal must contain the unadjusted units of comparison for the comparable sales. If the appraisal is prepared in conjunction with a purchase transaction, the units of comparison must be provided for the subject property as well. These units of comparison are the sales price per square foot of gross building area (GBA), per unit and per room and the gross rent multiplier (GRM). The comment area of the sales comparison analysis must reconcile the adjusted sales prices of the comparable sales and the unadjusted units of comparison, as appropriate, according to the manner in which such properties sell in the defined market area.
  - The appraiser must indicate in the comments area which factors are deemed most consistent and which factors typical investors or purchasers in that market area consider when purchasing a similar property.

- **Sale and Listing History**
  - The appraiser must research, verify, analyze and report:
    - Any current agreement for sale for the subject property
    - Any offering for sale of the subject property in the twelve months prior to the effective date of the appraisal
    - Any prior sales or transfers of the subject property for the three years prior to the effective date of the appraisal
    - Any prior sales or transfers of each comparable sale for the year prior to the date of sale of each comparable sale
  - The lender's review of the acceptability of each appraisal should include an analysis of the sale and listing history. The lender must confirm that the sale price trend in relation to the appraiser's opinion of market value is reasonable and representative of the market.
  - For purchase transactions, the lender should analyze the appraisal report and the current contract for sale for the subject property.
  - For both purchase and refinance transactions, the lender's underwriting analysis of the appraisal report should include any current listing or offering for sale for the subject property, the sales history of the subject property and comparable sales, and the current ownership of the subject property.
  - To reduce the lender's risk of liability resulting from fraudulent or inaccurate appraisals, the lender should analyze the subject property and comparable sales and evaluate the time elapsed between the date(s) the property was acquired and the date(s) resold, or the date of the current resale contract, if applicable. If the sales history of the subject property or comparable sales indicates current or prior sale prices may be excessive, and resale dates occurred shortly after the property seller's acquisition of the property, the appraisal report should provide evidence to justify and support a rapidly appreciating real estate market, significant improvements that resulted in a corresponding increase in the property value or a previous sale that was below market value due to a distress or tax sale.

Continued on next page

Comparable Sales

Non-AUS

- **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. External factors, including Federal Emergency Management Agency (FEMA) designated flood zone, should be given consideration when selecting comparables.
  - When choosing comparable sales, the appraiser should examine the market area of the subject property, assess its characteristics, and identify similar comparable sales. Market area is defined as the geographic region, for a subject property, from which most demand comes and in which most of the competition is located. This does not mean comparable sales must be identical to the subject property, but instead should be competitive and appeal to the same market participants that would also consider purchasing the subject property. If the available comparable sales are not similar, the appraiser needs to decide whether an expansion of the market area search is appropriate. If this occurs, the appraiser must provide commentary to explain the rationale for selecting comparable sales outside the subject's market area and make location adjustments if warranted.
  - Comparable sales from within the same market area (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 located in competing market areas, 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's 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, 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 if the appraiser adequately documents the analysis and explains why they were used. (For additional information, see the "Neighborhood Section of the Appraisal Report" subtopic).
  - When describing the proximity of the comparable sale to the subject property, the appraiser must be specific with respect to the distance in terms

Continued on next page

Comparable Sales, (continued)

Non-AUS, continued

- **Selection of Comparable Sales,** continued
  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 requirement.
  - 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 affected the availability of recent sales, and the changing market conditions causing their use must be explained in the report.
  - 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 three truly comparable sales that sold in the last 12 months. In this case, the appraiser may use older comparable sales if 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.

Continued on next page

Comparable Sales, (continued)

Non-AUS, continued

- **Additional Requirements for New (or Recently Converted) Condos, Subdivisions, or PUDs,** continued

  See the "Project Types" subtopic within the "Agency" topic in [Section 1.06: Condominium and PUD Approval Requirements Standard]() 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.

✓	The appraisal report must…
	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.

Continued on next page

Comparable Sales, (continued)

Non-AUS, continued

- 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.

- **Additional Requirements for Leasehold Estates**
  - See the "Leasehold Estates" subtopic within the "Appraisal Requirements" topic in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for guidance.

- **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. If the appraiser's analysis of the market data shows the best indicators of value for the subject property are a considerable distance away, those comparable sales can be used if it produces credible assignment results. 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 market data indicates 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 their impact. 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 the "Adjustments to Comparable Sales" subtopic and for more information regarding financing types, see Fannie Mae and Freddie Mac Uniform Appraisal Dataset Specification, Appendix D: Field-Specific Standardization Requirements).

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Continued on next page

Comparable Sales, (continued)

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- **Selection of Comparable Sales and Analysis**
    - The appraiser must report a minimum of three comparable sales as part of the sales comparison approach. The appraiser may submit more than three comparable sales, including contract sales (pending sales) and/or current listings, to justify and support his or her opinion of market value, as long as at least three are actual closed (settled) sales. Generally, the appraiser should use comparable sales that have been closed within the last 12 months. However, the appraiser may use older comparable sales, as long as the appraiser can justify and support such use in the appraisal report. The appraiser must comment on the reasons for using any comparable sales that are more than six months old.
    - The proper selection of comparable properties minimizes both the need for, and the size of, any adjustments.
    - For example, the comparable sales should be similar in the characteristics that are relevant to the value of that property. This typically includes characteristics such as finished area, room count, quality and site. When choosing comparable sales, the appraiser should identify the neighborhood in which the property is located and determine if the neighborhood represents the market area or if the market area is larger. There may be instances where the appraiser may need to utilize comparables from outside of the subject's market area. In such cases, location adjustments may be necessary. The appraiser must provide commentary explaining the rationale for the selected comparable sales.
    - Occasionally, there may be no similar or truly comparable sales for a particular property because of the uniqueness of the property or other conditions. As a result, additional due diligence on behalf of the appraiser may be necessary. In such cases, the appraiser must use knowledge and judgment to select comparable sales that represent the best indicators of value for the subject property.
    - Comparable sales may be taken from a competing market area if:
        - The appraiser has analyzed the competing market are, evaluated whether a location adjustment is needed and applied a location adjustment when necessary, and
        - Comparable sales taken from the competing market area are better indicators of current market trends in the subject’s market area than the existing comparable sales available in the subject’s market area.

    - **Comparable Sale Requirements for Properties In Established Subdivisions, Units in Established Planned Unit Developments (PUDs) or Units In Established Condominium Projects**
        - For properties located in established subdivisions, units in established PUDs or units in Established Condominium Projects, the appraiser should use comparable sales from within the subject subdivision or project when they are the best indicators of value for the subject property.

Continued on next page

Comparable Sales, (continued)

Freddie Mac LPA, continued

- **Comparable Sale Requirements for Properties In New Subdivisions, Units In New PUDs or Units in Recently Converted or New Condominium Projects**
  - To demonstrate the marketability and develop an opinion of market value for units in new subdivisions, units in new PUDs or units in recently converted or New Condominium Projects, the appraiser must comply with the following requirements:
    - One comparable sale must be from inside the subject subdivision or project, when available. Additionally:
    - The comparable sale from inside the subject subdivision or project can be a sale by the builder or developer of the subject property.
    - If there are no closed comparable sales from inside the subject subdivision or project, contract sales may be used from inside the subject subdivision or project to satisfy this requirement. However, the use of contract sales must be in addition to the three actual closed sales obtained from outside the subject subdivision or project.
    - In the event the subject subdivision or project is so new that a closed sale or a contract sale is not available, comparable sales from outside the subject subdivision or project may be used. However, the appraiser must comment on the marketability of the new subdivision or project, and justify and support the use of the comparable sales from outside the new subdivision or project.
    - One comparable sale must be from outside the subject subdivision or project, and
    - The third comparable sale may be from either inside or outside the subject subdivision or project
  - When resales are available from inside the subject subdivision or project, they are preferable and should be given significant consideration as they provide a reliable indicator of the market value of units within the subdivision or project.
  - At a minimum, at least two comparable sales must be sales in which the builder or developer of the subject property is not involved in the sales transaction.

- **Additional Requirements for Condominium Units**
  - The appraiser must report the project name, the assessments, including special assessments and the property rights for each comparable sale and must compare them to the subject project. The appraiser must also identify the common elements including the amenities available to the unit owners, comment on their condition and analyze how they compare to the common elements and amenities of competing projects.
  - Comparable sales must be from condominium projects in the same market, be similar to the subject project and compete for the same purchasers.

Continued on next page

Comparable Sales, (continued)

Freddie Mac LPA, continued

- **Additional Appraisal Requirements for Detached Condominium Units**
  - The appraiser should use similar detached condominium unit comparable sales from the same project or from the same market area. The appraiser may use other types of 1-unit detached comparable sales that are not located in a condominium project only if the appraiser supports the use of such sales in the appraisal report and reflects any effect that the condominium form of ownership has on the market value and marketability of the subject property. Each appraisal report must comply with all applicable requirements.

- **Additional Requirements for Leasehold Estates**
  - See the "Leasehold Estates" subtopic in the "Appraisal Requirements" topic within Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for requirements.)

- **Comparable Sale Requirements for a 1-Unit Property with an Accessory Unit**
  - See "Eligibility of a Property with an ADU "in the "Improvements Section of the Appraisal Report" subtopic previously presented in this topic for guidance.

Continued on next page

Adjustments to Comparable Sales

Non-AUS

- **Analysis of Adjustments**
  - Fannie Mae does not have specific limitations or requirements 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 the "Comparable Sales" subtopic.)
  - 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 market supported 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.

    Reference: See the "Interested Party Contributions (IPCs)" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for information related to sales or financing concessions for the subject transaction.

  - 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 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.

Continued on next page

Adjustments to Comparable Sales, (continued)

Non-AUS, continued

- **Sales or Financing Concessions**, continued
  - 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. 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 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.

Continued on next page

Adjustments to Comparable Sales, (continued)

Non-AUS, continued

- **Market Conditions Analysis and Time Adjustments**
  - How to measure and analyze (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. A specific time adjustment to a comparable sale(s) may differ from the identified market trend since the determination of whether an adjustment is made to a comparable sale is based on market changes between the contract date of the comparable sale and the effective date of the appraisal. For example, the 12-month value trend may indicate a positive overall trend, however it's possible the market was stable (or declining) between the time period of the contract date of the comparable and the effective date of the appraisal. See this illustration for Market Condition Adjustments. Comparable(s) sales with a contract date that is recent in relation to the effective date of the appraisal will likely not have a time adjustment given the inability to identify a change in the market. The appraisal report must contain the market analysis that supports the indicated market trends, and any adjustments made for market conditions.
  - Because the appraisal is for a specific point in time (the *effective date* of the appraisal), the appraiser must analyze comparable sales for any changes in market conditions from their contract dates through the effective date to determine whether time adjustments are warranted. Time adjustments, or the lack thereof, must be supported by evidence. Use of home price indices (HPIs) to support time adjustments is consistent with Fannie Mae's policy. The adjustment rates can also be determined through statistical analysis, modeling, paired sales, or other commonly accepted methods. The appraisal report must, at a minimum, summarize the supporting evidence and include a description of the data sources, tool(s), and technique(s) used.
  - 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 reports, 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.

Continued on next page

Adjustments to Comparable Sales, (continued)

Non-AUS, continued

- **Appraiser's Comments and Indicated Value in the Sales Comparison Approach**
  - The appraiser must provide fact-based and objective comment(s) that detail the work performed and data sources utilized for the market supported adjustments used, especially for the characteristics reported in 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 fact-based 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 their 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.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Adjustments**
  - Each comparable sale must be analyzed for similarities and differences between it and the subject property. When the appraiser's analysis concludes an adjustment is necessary, the appraiser must make an adjustment for differences and indicate the dollar amount of the adjustment to reflect the value of the differences to the market. The appraiser may also need to consider whether the income approach, cost analysis, market surveys or other methods are appropriate for supporting adjustments. The appraiser must provide a sufficient explanation of the basis and rationale for all adjustments (or, if necessary, lack of adjustments) within the appraisal report or addenda.
  - Comparable sales must be adjusted to the subject property, except for sales and financing concessions that must be adjusted to the market at the time of the sale. Large adjustments typically occur in rural markets, and with unique properties, due to limited market activity. Freddie Mac does not have limitations on gross or net adjustment percentages. See "Market Area Analysis and Market Condition Adjustments" below for market condition adjustment requirements.

Continued on next page

Adjustments to Comparable Sales, (continued)

Freddie Mac LPA, continued

- **Sales and Financing Concessions**
  - The appraiser must independently verify and analyze all pending and recent sales of comparable properties, report how the sales were verified and whether concessions were granted. At least three verified, closed (settled) sales of comparable properties must be analyzed and market-based adjustments made for significant differences between the comparable sales and the subject property.
  - Sales or financing concessions are offered by interested parties to the transaction (e.g., the builder, developer, property seller or real estate agent). Because the effect of concessions on sale prices can vary with the type and amount of the concessions, any adjustments to comparable sales must be based on the market reaction to them. The appraiser should provide comparable sales that sold without concessions to justify and support the adjustments made in determining the market reaction to the concessions. Adjustments may not be based solely on dollar-for-dollar deductions equal to the dollar value of the concessions. If comparable sales without concessions are not available, adjustments to comparable sales with concessions must reflect the differences between what the comparable sales actually sold for with the concessions and what they would have sold for without the concessions.
  - The appraiser's opinion of market value must reflect the value of the subject property without the concessions. The appraiser must also provide the dollar value of the concessions as a comment in the appraisal report.

  Reference: See the “Interested Party Contributions (IPCs)” topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for information related to lender treatment of sales or financing concessions.

- **Market Area Analysis and Market Condition Adjustments**
  - The market area is defined as the geographic region, for a subject property, from which most demand comes and in which most of the competition is located.
  - The appraiser's analysis of the market trend (increasing, stable, declining) must include factual data from information sources such as, but not limited to, market data, home price indices, multiple listing services, public records, and/or models. The market trend indicated in the appraisal report must reflect the overall movement of the market based on a minimum of 12 months of data.
  - A specific time adjustment to a comparable sale(s) may differ from the identified market trend since the determination of whether an adjustment is made to a comparable sale is based on market changes between the contract date of the comparable sale and the effective date of the appraisal. For example, the 12-month trend may indicate a positive overall trend; however, it's possible that the market was stable (or declining) between the time period of the contract date of the comparable and the effective date of the appraisal (see Freddie Mac Exhibit 44, Market Condition Adjustments).
  - Comparable(s) sales with a contract date that is recent in relation to the effective date of the appraisal will likely not have a time adjustment given the inability to identify a change in the market.
  - The appraisal report must contain the market analysis that supports the indicated market trends and any adjustments made for market conditions.

Continued on next page

Cost and Income Approach to Value	**Non-AUS**

Non-AUS

- **Cost Approach to Value**
  - Fannie Mae does not require the cost approach to value. 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.

Continued on next page

Cost and Income Approach to Value, (continued)

Non-AUS, continued

- The lender must validate these approaches to value in the appraisal report and comply with unacceptable appraisal practices (see “Unacceptable Appraisal Practices” presented in the “Appraisal Requirements” topic within Section 2.01 Agency Loan Standard for additional information).

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Cost Approach**
  - The cost approach is not required.
  - The lender may request the appraiser to develop and report the cost approach when not required for the transaction. The appraiser must develop and report the result of any approach to value that is applicable and necessary for an appraisal, even if the lender did not request it.
  - In markets with unique property styles, a lack of comparable sales, or the presence of unique features such as outbuildings, the cost approach can provide support for adjustments made in the sales comparison approach. The cost approach may be appropriate especially when appraising properties that are:
    - New or proposed construction
    - Under renovation
    - Unique because of property features (e.g., outbuildings, stables, pole-barns, or shops)
    - Unique because of their styles or construction methods (e.g., barn conversions ("barndominiums"), "shouses" (living-space and work/storage combinations), berm homes, log homes, or geodesic dome dwellings), or
    - Not typical for the market area or have functional obsolescence
  - When the cost approach is developed, the appraiser must consider any items detrimental to stability or marketability, including physical, functional and external depreciation.
  - Appraisals that rely solely on the cost approach for the opinion of market value are unacceptable.
  - Freddie Mac does not require an estimate of remaining economic life.

- **Income Approach**
  - The income approach to value is required for appraisals of 2- to 4-unit properties. The lender may request the appraiser to develop and report the income approach to value when not required for the transaction. The appraiser must develop and report the result of any approach to value that is applicable and necessary for an appraisal, even if the lender did not request it.
  - Appraisals that rely solely on the income or cost approaches to value in order to estimate market value are unacceptable.

Continued on next page

Valuation Analysis and Reconciliation

Non-AUS

- **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 analysis 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.

Fannie Mae DU

Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA

Follow LPA requirements, which are as follows:

- The data and information presented in the appraisal report must justify and support the appraiser's opinion of market value. The appraiser must explain how the final value conclusion was determined, and the rationale must be consistent with the comments, conclusions and assumptions stated throughout the appraisal report.
- The reconciliation must contain any conditions of the appraisal on which the final opinion of market value is based.
- If the subject transaction involves sales or financing concessions, the appraiser's opinion of market value must reflect the value of the subject property without the concessions. The appraiser must also provide the dollar value of the concessions as a comment in the appraisal report.

Continued on next page

Appraisal Quality Matters

Non-AUS

- **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 the "Guidance on Addressing Appraisal Deficiencies" section below.
  - 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, it 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.

Continued on next page

Appraisal Quality Matters, (continued)

Non-AUS, continued

- **Guidance on Addressing Appraisal Deficiencies**, continued
  - 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.

  - **Reconsideration of Value (ROV)**
    - For loans requiring an appraisal report, the lender must have policies and procedures in place for a borrower-initiated reconsideration of value (ROV). At a minimum, the ROV process must meet Fannie Mae requirements and adhere to all applicable local, state, and federal laws.
    - The ROV process must include a review and resolution procedure for the ROV request, and steps for the borrower(s) to appeal an appraisal when it is believed the opinion of value:
      - is unsupported,
      - may be deficient due to unacceptable appraisal practices, or
      - reflects prohibited discriminatory practices.
    - Regardless of the outcome of the ROV, the lender is responsible for ensuring the appraisal report and opinion of market value are reliable and adequately supported.
    - The lender must provide a disclosure to the borrower outlining the ROV process at the time of loan application and again when the appraisal report is provided to the borrower. The disclosure must make it clear that only one borrower-initiated ROV is permitted per appraisal. The following table describes the information the borrower must provide to initiate the ROV process.

✓	The borrower-initiated ROV must include…
	• Borrower(s) name, • Property address, • Effective date of the appraisal, • Appraiser name, and • Date of the ROV request.
	Identification and description of unsupported, inaccurate, or deficient areas in the appraisal report.
	Additional data, information, and comparable properties (not to exceed five), and the related data sources (for example, the MLS listing number).
	An explanation of why the new data supports the ROV.

Continued on next page

Appraisal Quality Matters, (continued)

Non-AUS, continued

- **Reconsideration of Value (ROV)**, continued
  - In addition to the borrower ROV submission requirements, the lender's ROV policies and procedures must include instructions on required information for a borrower-submitted ROV and standardized communication to the appraiser. The following table describes additional lender requirements.

✓	The lender must…
	complete its appraisal review before initiating the ROV process.
	designate an underwriter or other appraisal subject matter expert to review the ROV request.
	validate the request from the borrower contains sufficient details prior to sending to the appraiser.
	obtain the necessary information from the borrower if the ROV request is unclear or needs more information.
	align its ROV policies and procedures with *Appraiser Independence Requirements* (AIR).
	standardize communication to the appraiser, that contains the following: • borrower(s) name, property address, effective date of the appraisal, appraiser name, and date of the ROV; • identification and description of unsupported, inaccurate, or deficient areas in the appraisal report; • additional data, information, or comparable properties, not to exceed the maximum of five; • a definition of turn-time expectations for communicating ROV results; • instructions for delivering the ROV response as part of a revised appraisal report that includes commentary on conclusions regardless of the outcome; and • a reference for appraisers on how to correct minor appraisal issues or non-material errors not related to the ROV process.
	ensure all documentation and communications related to the initiation and outcome of the ROV are retained in the loan file.

  - If material deficiencies identified in the appraisal report are not corrected or addressed by the appraiser upon request, or if there is evidence of any unacceptable appraisal practices detailed in the “Unacceptable Appraisal Practices” subtopic in the “Appraisal Requirements” topic within Section 2.01 Agency Loan Standard, the lender must forward the appraisal report and summary of findings to the appropriate appraisal licensing agency or regulatory board. The lender must also report suspected overt violations of anti-discrimination laws to the proper local, state, and federal agency. In the event of these occurrences, the lender may obtain a second or subsequent appraisal report.

Note: After a loan has closed, an ROV request is no longer allowed to be submitted by the borrower.

Continued on next page

Appraisal Quality Matters, (continued)

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
Follow LPA requirements, which are as follows:

- **Reviewing Appraisal Reports**
  - The lender is required to evaluate an appraisal report to determine whether or not it meets requirements, and that the opinion of market value is credible and adequately supported. Freddie Mac expects the lender to ensure valuation and related staff, inclusive of third parties (e.g., appraisal management companies, fee-appraisers, review appraisers and underwriters) are trained to identify prohibited discriminatory practices and appraisal deficiencies (inclusive of unacceptable appraisal practices as outlined in the “Unacceptable Appraisal Practices” subtopic in the “Appraisal Requirements” topic within Section 2.01 Agency Loan Standard) through the valuation review and reconsideration of value (ROV) processes. The lender must have a process for remediating these deficiencies.
  - Before rejecting an appraisal report, the lender must request the appraiser to provide additional information and/or address any deficiencies with the appraisal report. If the appraiser does not adequately address the lender’s concerns and the lender is unable to conclude that the appraisal report meets Freddie Mac requirements, then the appraisal report must be rejected and a new appraisal report must be obtained.

- **Reconsideration of Value (ROV)**
  - For mortgages requiring delivery with an appraisal report, the lender must have in place policies and procedures that address requests for an ROV that meet, at a minimum, the following requirements and any requirements required under applicable local, state, or federal law. Freddie Mac's ROV requirements are minimum standards. If state law or regulation requires more than Freddie Mac's requirements, the state law or regulation controls.
  - The ROV process must include a review and resolution procedure, including steps for the borrower(s) to appeal an appraisal report's findings when the borrower(s) believes the appraisal report or the appraiser's opinion of value is unsupported, may be deficient due to an unacceptable appraisal practice, or reflects discriminatory practices. The lender remains responsible for ensuring that the opinion of market value is credible, and the appraisal report meets published Agency requirements.
  - In addition, the lender’s ROV policies and procedures must:
    - Provide for a disclosure to the borrower(s) outlining the ROV process at the time of application and upon the delivery of the appraisal report to the borrower(s). The disclosure must also include instructions for requesting the ROV:
      - The borrower requirements for submissions of information are the same as those included in the standardized format for submission to the appraiser as described below.

Continued on next page

Appraisal Quality Matters, (continued)

Freddie Mac LPA, continued

- **Reconsideration of Value (ROV)**, continued
  - Ensure the lender completes its appraisal review before initiating the ROV process
  - Provide a standardized format for providing the rationale, requirements and supporting documentation for the ROV to be communicated to the appraiser. This must include:
    - Reporting the borrower(s) name, property address and the effective date of the appraisal, appraiser's name, and date of the ROV submission
    - Identifying specific issues and deficiencies in the appraisal report
    - Providing detailed information, data, or alternative comparable properties (maximum of five alternative comparables are permitted), including the source of the data (e.g., multiple listing service listing, publicly available information, etc.) and the rationale for the inclusion of the alternative comparables, information or data, as applicable
  - Ensure the ROV request is accurately completed and includes sufficient detail to warrant reengagement of the appraiser. If the ROV request is unclear, deficient or requires additional information, the lender should remediate with the borrower(s), as applicable
  - Instruct the appraiser to deliver a revised appraisal report that includes specific commentary explaining their conclusions to the ROV request, regardless of whether the appraiser determines that changes are not needed to address the issues identified in the ROV
  - Define turn-time expectations for communicating results of the ROV to the borrower
  - Specify that one borrower-initiated ROV is permitted per appraisal
  - Ensure all documentation and communications related to the initiation and outcome of the ROV are retained in the mortgage file
  - Note that once a loan is closed, an ROV request is no longer permitted
  - Not conflict with the *Appraisal Independence Requirements*
- If material deficiencies are identified in the appraisal report that are not corrected or addressed by the appraiser upon request, or if there is evidence of unacceptable appraisal practices as outlined in the "Unacceptable Appraisal Practices" subtopic in the "Appraisal Requirements" topic within Section 2.01 Agency Loan Standard, the lender must forward the appraisal report, along with a summary of findings, to the appropriate appraisal licensing agency or regulatory board. Additionally, if there are suspected overt violations of antidiscrimination laws, the lender must report it to the proper local, state, or federal agency. In the event of these occurrences, the lender may obtain a second or subsequent appraisal report in adherence to Freddie Mac requirements and local, state, and federal laws.

Continued on next page

Appraisal Quality Matters, (continued)

Freddie Mac LPA, continued

- **Obtaining Subsequent Appraisal Reports, Appraisal Desk Review Reports, and Appraisal Field Review Reports**
  - *Appraiser Independence Requirements* provides that the lender must not order, obtain, use, or pay for a subsequent appraisal in connection with a mortgage financing transaction unless:
    - There are indicators that the initial appraisal was inaccurate, not credible, or in violation of legal and/or professional standards related to nondiscrimination, and such indicators are clearly and appropriately noted in the mortgage file,
    - Such subsequent appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting requirements, and so long as the lender adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states a particular value, or
    - A subsequent appraisal is required by law.

  - **Reconciling Multiple Opinions of Market Value**
    - If the initial appraisal report was not rejected and a subsequent appraisal report, appraisal desk review report, or an appraisal field review report is obtained in compliance with the requirements of this section and the *Appraiser Independence Requirements*, the lender must use the most credible opinion of market value.
    - The lender must comply with the *Appraiser Independence Requirements* and must select the most credible appraisal report, rather than the appraisal report that states a particular value. The lender's review and reconciliation process must result in the lender relying on the most credible and adequately supported opinion of market value.

  - **Mortgage File Documentation and Delivery Data**
    - The lender must retain in the mortgage file copies of all documents used in the valuation analysis, as well as written documentation justifying the lender's decision as to which appraisal report (or appraisal desk review report or field review report) was used to underwrite the mortgage.
    - The value used to underwrite the mortgage is the basis for the lender's value warranty and is the value that must be provided to Freddie Mac as part of the delivery data. As identified in the "Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP)" subtopic previously presented in this topic, if the appraisal report used to underwrite the mortgage is able to be submitted to the Uniform Collateral Data Portal® (UCDP®), the appraisal report must be submitted to the UCDP and receive a "Successful" status prior to delivery of the mortgage.

Continued on next page

Environmental Hazards Appraisal Requirements

Non-AUS

- **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.

Continued on next page

Environmental Hazards Appraisal Requirements, (continued)

Non-AUS, continued

- **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.

Fannie Mae DU
Follow DU requirements, which are the same as non-AUS requirements.

Freddie Mac LPA
See “Environmental Issues and Detrimental Conditions” in the “Site Section of the Appraisal Report” subtopic previously presented in this topic for guidance.

Appraisal Analysis: Non-Agency Loan Programs

General Information

- The appraisal should be completed in an objective manner so that a third party can follow the appraiser's reasoning in arriving at the estimate of market value.
- The appraisal must establish the risk of value and evaluate the present value of the property as well as the likelihood that the property will maintain such value in the future.
- The appraiser is responsible for completing the appraisal form in its entirety.

FHA Electronic Appraisal Delivery (EAD) Portal

- Truist will accept appraisals in the Mortgage Information Standards Maintenance Organization (MISMO) 2.6 with embedded PDF format, as created directly by the appraiser (first generation).
- Truist will not accept private or proprietary data formats or appraisal reports that have been manipulated or "translated" by anyone or any process.

Reference: See the FHA Single Family Housing Appraisal Report and Data Delivery Guide for complete guidance on electronic appraisal delivery.

Uniform Appraisal Dataset (UAD)

Overview

UAD was developed in an effort to improve the quality and consistency of appraisal data on loans and defines all fields required for an appraisal submission for specific appraisal forms. UAD standardizes the input values for certain elements, such as specific date and dollar amount formats and the definitions for select key appraisal data elements, such as property condition and quality of construction on the four UAD appraisal report forms listed below:

- Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70)
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073/Freddie Mac Form 465)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Freddie Mac Form 466)
- Exterior-Only Inspection Residential Appraisal Report (Freddie Mac Form 2055)

Notes:

- All UAD-compliant appraisals MUST be completed on the correct form (identified by "UAD version 9/2011" in the footer of the form.)
- Truist does not accept the Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Freddie Mac Form 466) or the Exterior-Only Inspection Residential Appraisal Report (Freddie Mac Form 2055).

Continued on next page

Uniform Appraisal Dataset (UAD), continued

Definitions of Property Condition and Quality of Construction
The UAD Specification provides standardized definitions for property condition and construction quality. The new definitions are expressed as a rating. Property condition will be rated C1 through C6 and quality of construction will be rated Q1 through Q6.

- Condition ratings C1 through C4 will be eligible in "as-is" condition. Condition ratings C5 and C6 will apply if the appraiser identifies physical deficiencies that affect the soundness, structural integrity, or livability of the subject property. If the condition rating is C5, the property will be eligible only if the repairs necessary to resolve the stated deficiencies are completed prior to closing and the file contains a final inspection that reflects a revised condition rating of C4 or better. If the condition rating is C6, the property does not meet eligibility requirements.
- Construction quality ratings Q1 through Q5 will be eligible; however, properties with a quality rating of Q6 do not meet eligibility requirements.

Additional Information on the Appraisal Reports
New information will need to be provided on the form that was never explicitly requested before the UAD. For example, the following data points are now required:

- Days On Market (DOM) and Sale Type for the subject property and each comparable property
- Specifically defined Condition and Quality ratings
- Status of improvements to kitchen and bathrooms for the subject property

Frequently Asked Questions about UAD
Click here to access the FAQ document.

Appraisal Types Required to be UAD Compliant and Submitted to the FHA EAD Portal

The following table provides a list of the form type and MISMO format required for each property type.

Property/Assignment Type	Acceptable Reporting Form
Single Family, Detached, Attached or Semi-Detached Residential Property	Fannie Mae Form 1004/Freddie Mac Form 70, Uniform Residential Appraisal Report; MISMO 2.6 GSE format
Single Unit Condominium	Fannie Mae Form 1073/Freddie Mac Form 465, Individual Condominium Unit Appraisal Report; MISMO 2.6 GSE format
Small Residential Income Properties (Two-to-Four Units)	Fannie Mae Form 1025/Freddie Mac Form 72, Small Residential Income Property Appraisal Report; MISMO 2.6 Errata 1 format
Update of Appraisal (All Property Types)	Summary Appraisal Update Report Section of Fannie Mae Form 1004D/Freddie Mac Form 442, Appraisal Update and/or Completion Report; MISMO 2.6 Errata 1 format

Continued on next page

VA UAD Compliance

- VA appraisal types that must be UAD-compliant are:
  - Uniform Residential Appraisal Report (Fannie Mae 1004/Freddie Mac 70)
  - Individual Condominium Unit Appraisal Report (Fannie Mae 1073/Freddie Mac 465)
  - Exterior-Only Inspection Residential Appraisal Report - (Freddie Mac 2055) (used for liquidation appraisals only)
  - Exterior-Only Inspection Individual Condominium Appraisal Report - (Freddie Mac 466 (used for liquidation appraisals only)
- VA rescinded the following in order to comply with UAD requirements:
  - The requirement that only the "Department of Veterans Affairs" be entered in the Lender/Client field of the appraisal form. Instead, the appraiser enters the lender's name in this field, as well as the "Department of Veterans Affairs" as the client of this field.
  - The requirement that "Intended User: Any VA Approved Lender" be entered in the Address field for the lender. Instead, the appraiser now enters the address of the lender from the appraisal assignment report in this field.
  - The requirement that "Any Qualified Veteran" be entered in the Borrower field of the appraisal report. The appraiser now enters the name of the Veteran purchaser in this field.

- All Fannie Mae/Freddie Mac UAD requirements remain in effect with the exception of those listed below:
  - VA Fee Appraisers will continue to complete VA appraisal reports in accordance with the requirements of the VA Lender's Handbook (VA Pamphlet 26-7, Revised) and instruction and requirements from VA. Fee Appraisers are reminded that completion of the data fields of the appraisal report does not relieve them of the duty to provide adequate explanations in the addendum to provide clarity and justification.
  - Appraisal reports will continue to be quality-reviewed for compliance with VA requirements.
  - While the UAD may allow for the use of unsettled sales in the sales comparison grid, VA requires that only settled sales be used.
  - UAD requires appraisers to provide specific information regarding remodeling in the past 15 years; VA expects Fee Appraisers to recognize and describe remodeling or updating and to make appropriate adjustments. On VA appraisals, Fee Appraisers should also report UAD information concerning the remodeling if it is available in the "normal course of business" within VA timeliness requirements for completion of the appraisal.

Continued on next page

Subject Property

- This section provides the following information:
- The appraiser must enter an address that conforms to the United States Postal Service (USPS) address standards. The subject address must be populated consistently throughout the form. The following address elements must be included in these fields:
  - Street Number
  - Street Name (including pre-directional indicator suffix, post-directional indicator, and unit number when applicable)
  - City
  - USPS two letter state abbreviation or territory representation
  - 5-digit Zip Code or Zip + 4 code (either with or without dash)
  - County - If the subject property is not located in any county (the subject property is located in an independent city), enter the name of the local municipality or district in which the property is located.
- Assessor Parcel number should be formatted exactly the same as the taxing agency does, including all spaces and dashes as applicable. If no parcel number is available, then enter “none.”
- Tax Year, Real Estate Taxes and Special Assessments - The appraiser should report the amount of the taxes / assessments payable on the subject property as an annualized amount. If real estate taxes are payable to more than one entity, the appraiser should enter the sum of all real estate taxes / assessments in an annualized amount. In the event the subject does not have taxes and/or assessments, then a numeral zero must be entered.
- Neighborhood Name – The appraiser should enter a neighborhood name. It may be a name recognized by the municipality in which the property is sited, such as a subdivision name. If there is not a neighborhood name recognized by the municipality, enter the common name by which residents refer to the location.
- Project Name – The appraiser must enter the legal name of the project for the subject project and each comparable property.
- Occupant – The appraiser must indicate whether the subject is occupied by the owner or a tenant, or is vacant as of the effective date of the appraisal. Only one selection is permitted. For properties that are comprised of one unit with an accessory unit, the selection must reflect the occupancy status of the main unit.
- PUD (Indicator) – The appraiser must indicate if the property is located in a Planned Unit Development (PUD). If the checkbox is selected, the appraiser must select ‘yes’ or ‘no’ in response to the question, “Is the developer / builder in control of the Homeowners Association (HOA)?” located in the PUD Information section.
- HOA Fees - The appraiser must enter all applicable association (HOA) fees applicable to the subject property, and if none, must enter a numerical zero.
- Assignment type – The appraiser must indicate the transaction type for the assignment – Purchase, Refinance, or Other. Only one selection is permitted. If ‘Other” is selected, a description must be provided.
- Lender/Client - The Appraiser must enter the name of the lender. Any applicable AMC name should only be entered in the Appraiser Certification Section.
- Description of the property rights (i.e., “fee simple” or “leasehold”) to be appraised.

Continued on next page

Subject Property, (continued)

- Financial data and sales concessions.
- Census tract and/or MSA number.
- Identification of the borrower, the name of the current owner of public record and the client.
- The appraiser must identify whether the subject property is currently offered for sale or has been offered for sale in the twelve months prior to the date of the appraisal by selecting either the 'Yes' or 'No' checkbox and report the data source(s) used, offering price(s), and date(s).
  - If the answer is 'No' the data source(s) used must be provided.
  - If the answer is "Yes" the following information is required:
    - Days on the Market (DOM) – The appraiser must enter the DOM for the subject property. DOM is defined as the total number of continuous days from the date that a property is listed or advertised for sale through the date it is taken off the market or contracted for sale. DOM applies not only to properties listed in a Multiple Listing Service (MLS), but also applies to properties marketed for sale outside MLS. If the subject property was not individually listed or advertised for sale, enter the numeral zero (0). If the DOM is unknown, enter 'UNK'.
    - Offering Price(s) – The appraiser must report the original offering price and a history of price changes, if any.
    - Offering Date(s – The appraiser must report the date(s) that the property was offered for sale.
    - Data Source(s) Used – The appraiser must report the data source(s) used to obtain the offering information. If the data source is MLS, the appraiser must enter the abbreviated MLS organization name, followed by a pound sign (#), and the specific listing identifier. If the subject property was offered For Sale by Owner (FSBO) or otherwise marketed for sale outside, the appraiser must report the original offering price, history of price changes, if any, and the date(s) the property was offered for sale, etc., to the extent that this information is known or available to the appraiser in the normal course of business.
- Review of the Subject Property section must include the following:
  - The property address and the legal description match the loan application, sales contract and title documents.
  - All blanks must be completed.
  - Purchases: Owner on Public Record matches property seller on the sales contract and title documents.
  - Refinances: Owner of Public Record matches the borrower on the loan application and title documents.
  - Occupancy matches transactions, i.e.; owner name matches occupant for refinance of Primary Residence.
  - There are no "For Rent" or "For Sale" signs in the photograph of the subject property on owner occupant refinance application.
  - Appraisal ordered by lender rather than another party (buyer, seller, Realtor) to the transactions.
  - Appraisal was ordered after the sales contract was written.

Continued on next page

Contract

The appraisal is required to identify the following information from the sales contract in effect as of the date of the appraisal:

- Verification that the appraiser analyzed the sales contract.
  - The appraiser must indicate the type of sale for this transaction from the list of valid sale types (REO sale, Short sale, Court ordered sale, Estate sale, Relocation sale, Non-arm's length sale, Arm's length sale), only one type of sale is permitted.
  - After selecting a valid sale type, the appraiser must enter an explanation of the results of the analysis of the contract or why the analysis was not performed.
- Contract price and date must match the sales contract and must be the same as the sales price for the subject property in the Sales Comparison Approach section as of the effective date of the appraisal. Changes to the sales contracts after the effective date of the appraisal may not require appraisal updates and should be referred back to the underwriter for delegated Correspondent loans.
- Indicates whether the seller is the owner of record.
- Financial assistance (loan charges, sale concessions, gift, or down payment assistance, etc.) to be paid by any party on behalf of the borrower,
  - If the appraiser indicates 'Yes', enter the total dollar amount of all financial assistance, including any closing costs or other payments from the seller or other third party.
  - 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. Leave this field blank if the entire financial assistance amount is unknown. The appraiser may choose to state 'There is financial assistance amount that is unknown' in the text field.
  - Next the appraiser must provide a description of the items being paid.

Continued on next page

Neighborhood Analysis

General

- The purpose of this section is to identify the area that is subject to the same influences as the subject property (i.e., common characteristics or trends) such as typical lot sizes, land use, street patterns and architectural styles).
- The neighborhood is defined by the appraiser in the description of its boundaries, which 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.
- The neighborhood characteristics should be addressed by the types of structures (detached, attached) and architectural styles (i.e., row or townhouse, colonial, ranch, Victorian); current land use (i.e., residential, commercial, industrial); typical site size (i.e., square feet, acres); or street patterns or design (i.e., one-way, cul-de-sac, court).
- The appraiser must make a visual inspection of the neighborhood in order to observe these influences and identify any land use changes, if applicable.
  - A neighborhood analysis considers influences of economic, governmental and environmental forces on property values in the neighborhood.
  - The racial or ethnic composition of a neighborhood or the age or sex of the individuals who live in a particular neighborhood are not appraisal factors and must not be considered in the valuation process (EXCEPT in the case of age restricted communities where the appraiser would be required to evaluate and comment on the impact, if any, of the age restriction on the property and/or neighborhood, as compared to other neighborhoods within the area).
  - Neighborhood conditions should be reported on the appraisal in factual, specific terms and be impartial and specific in describing favorable or unfavorable factors.
  - Changes that have occurred which might influence the marketability of the properties within the neighborhood must be explained so as to reflect an active, on-going market for the property.
  - 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.

Location

- This section must state the appraiser conducted a visual inspection of the market area to observe:
  - physical characteristics,
  - 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 street, 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.
  - identify land uses, and
  - indications that the land use may change.

Continued on next page

Neighborhood Analysis, continued

Location, continued

- Properties may be located in urban, suburban, or rural areas. Conditions exist that are specific to location and must be viewed in context with the nature of the area.
- All properties must be residential in nature, as reflected by the characteristics of the subject property, zoning, and the present land use.
- Properties with outbuildings must be given special consideration. Outbuildings that are minimal in value are acceptable if they are typical of other residential properties in the area. Outbuildings that do not represent typical residential improvements for the location or property type should be given minimum value. Outbuildings that represent a significant value may represent a property that is agricultural in nature and require careful review and consideration.
- All properties must be readily accessible by roads that meet local standards. In addition, they must have adequate utilities available and in service.
- Properties that are not suitable for year-round occupancy are not acceptable.

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.
- Typically, agricultural properties (i.e., income producing), undeveloped land and land-development-type properties are not acceptable.
- Because Truist does not purchase 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.

Continued on next page

Neighborhood Analysis, continued

Property Values

The appraisal must indicate whether property values in the subject's neighborhood are increasing, stable, or declining. Only one selection is permitted.

Declining Property Values

Reference: See Section 2.06: Key Loan Standard of the *Correspondent Seller Guide* for additional information on declining market standards.

Unfavorable Neighborhood Conditions

- Property located in a neighborhood that has vacant or boarded up properties may affect the value and/or marketability of the subject property. The appraiser must:
  - address these conditions in the appraisal,
  - use comparable sales from the same neighborhood, if available,
  - address the reasons for the vacancies or boarded up properties (i.e., foreclosure, rates, tax sales, supply/demand), and
  - address how all these factors affect the marketability of the subject property.

Demand, Supply and Marketing Time

- The appraiser must indicate whether the demand/supply in the subject property's neighborhood is in shortage, in balance, or over supply. Only one selection is permitted.
- Generally, an over-supply of housing is not desirable since it indicates that properties are selling slowly with a lot of competition. The appraiser must comment on the reason for the over-supply and its effect on the value of the subject property.
- The appraiser must indicate whether the marketing time is under 3 months, 3-6 months, or over 6 months. Only one selection is permitted.
- Marketing time is the average time that it takes for a reasonably priced property to sell in the subject neighborhood. If the time exceeds six (6) months, the appraiser must comment on the reason for the extended marketing period and its effect on the value of the subject property.

Predominant Occupancy

- Predominant occupancy is categorized as "owner," "tenant," "vacant (0-5%)," or "vacant (over 5%)."
- To assure that any effects of occupancy status will be reflected in the sales comparison analysis, the appraiser should select comparable sales from within the same neighborhood whenever possible.
- If vacant or vacancy over 5%, the appraiser should comment on any effect this may have on the neighborhood.

Continued on next page

Neighborhood Analysis (continued)

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, or condo 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 may state the predominant price as a single figure or as a range, if more appropriate.

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, or condo 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 may state the predominant age as a single figure or as a range when that is more appropriate.
- 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.

Continued on next page

Neighborhood Analysis, (continued)

Present Land Use

- The appraiser should provide the relative percentages of the developed land in the neighborhood rather than referring to the zoning classifications.
- Percentages should be reported separately for developed single-family sites, developed two- to four-family sites, etc.
- Undeveloped land should be reported as vacant.
- The total of the types of land uses must equal 100%.
- If land is being used for any purposes other than those listed on the appraisal form, the appraiser should describe each purpose and indicate what percentage of the land use this represents.
- Different land uses and/or property types should be considered neighborhood characteristics which must be taken into consideration when performing neighborhood analysis and defining neighborhood boundaries.

Changes in Land Use

- The appraiser must indicate whether the present land use is “likely” or “not likely” to change or whether it is “in process” of changing.
- If the present land use is “in process” of changing, the anticipated new land use(s) should be indicated. The appraiser should indicate the anticipated effects the transition will have on the marketability of the property.

Competitive Properties

If the subject property is a two- to four-family property, the following is required:

- the appraiser must include at least three (3) competitive properties from the subject neighborhood that have been selected from available listing (may be the rental comparables or the sales comparables used later in the market data analysis), and
- the appraiser must provide a narrative comparison of the competitive listings that describe current market conditions and trends affecting 2-4 family properties.

Over-Improvements

- An over-improvement is an improvement that is larger or costlier than what is typical for the neighborhood.
- 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 appraiser must comment on over-improvements and indicate their contributory value in the Sales Comparison Approach adjustment grid.
- The fact that the property is an over-improvement does not necessarily make the property ineligible. However, the Underwriter 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.

Continued on next page

Site Analysis

General

- The property site should be of a size, shape, and topography that are generally conforming and acceptable in the market area. It must also have competitive utilities, street improvements and other amenities.
  - For sites/parcels that have an area of less than one acre, the size must be reported in square feet.
  - For site/parcels that have an area of one acre or greater, the size must be reported in acreage to two decimal places.
  - The unit of measure must be indicated as either 'sf' for square feet or 'ac' for acres. A numeric value must be entered followed by the appropriate unit of measure. The total size of the entire site/parcel must be entered. No other data is permitted.
- The appraiser must provide one of the ratings (N- neutral, B- beneficial, A-adverse) to describe the overall effect on value and marketability of the view factors associated with the subject property. The appraiser must also provide at least one, but not more than two, view factor(s) (e.g. water view, pasture view, woods view, park view, golf course view, city view, skyline view, mountain view, residential view, city street view, industrial view, power lines, limited sight, other) and provide details about the overall view rating selected. If the view factor is not on the above list and materially affects the value of the subject property, the appraiser must enter a description of the view associated with the property. Descriptors such as 'None', 'N/A', 'Typical', 'Average', etc., are unacceptable. Site section and comparable sales grid must be the same for the subject property.
- The appraiser must include the actual size of the site and not a part of the site. For example, the appraiser may not appraise only five acres of an un-subdivided 40 acre parcel.
- It must also have competitive utilities, street improvements and other amenities.

Continued on next page

Site Analysis, (continued)

Zoning

- The appraisers are responsible for reporting the specific zoning classification for the subject property and explaining the meaning of the classification. If there is no zoning, an explanation by the appraiser is required.
- A specific statement must be included indicating whether the improvements represent a legal use, a legal but non-conforming use or an illegal use under the zoning regulations.
- Properties with improvements that do not constitute a legally permissible use of the land are not acceptable except as follows:
  - 1-4 unit properties, including 1-4 unit properties in PUD projects, reported as legal, but non-conforming are acceptable provided the use of the land and the appraisal analysis reflect any adverse effect that the non-conforming use has on the value and marketability of the property,
  - if the property is a condo unit that represents a legal, but non-conforming use of the land and the improvements can be rebuilt to current density in the event of their partial or full destruction, and/or
  - if the property is a one- to two-family property that includes an illegal additional unit or accessory apartment (i.e., mother-in-law suite) and the illegal use conforms to the subject neighborhood and to the market.
- Properties that are subject to certain land use regulations (i.e., coastal tideland or wetland laws) that create setback lines or other provisions preventing reconstruction of the property improvements if they are damaged or destroyed are not acceptable.
- Zoning requirements should not be the basis of classifying a project as a PUD.

Highest and Best Use

- The highest and best use of a site is that 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, be financially feasible, be physically possible and provide more profit than any other use of the site would generate.

Utilities

- The appraiser must indicate for each utility whether it is ‘Public’ and/or ‘Other’. Utilities include electricity, gas, water, and sanitary sewer. The appraiser must also enter a description if ‘Other’ is indicated. If the utility is not present, enter ‘None’ in the description field.
- The utilities must meet community standards.
- If public sewer and/or water facilities (those that are supplied and regulated by the local government) are not available, then community or private well and septic facilities must be available and utilized by the subject property.
- The subject property must have a self-fueling heating system.
- If community facilities are used, the owners of the subject property must have the right to access those facilities on an on-going basis.
- Generally, private well or septic facilities must be located on the subject site. However, off-site private facilities are acceptable if the inhabitants of the subject property have the right to access such facilities on an on-going basis and if there is an adequate, legally binding agreement for their access and maintenance.

Continued on next page

Site Analysis, (continued)

Off-Site Improvements

- Generally, the property should front on a publicly dedicated and maintained street that meets community standards.
- The appraiser should indicate whether the street or alley type is 'Public' and/or 'Private'. Enter 'None' in the appropriate description field if there is no street or alley.
- The property must have legally appropriate and adequate ingress and egress.
- If the property fronts on a community-owned or privately owned and maintained street, there must be an adequate, legally enforceable road maintenance agreement.
- If the property fronts on a street that is not typical of those found in the community, the appraiser must comment on the effect of that location on the marketability and value of the subject property.
- The appraiser must comment on any adverse conditions and address their effect on the marketability and value of the subject property.

The Lot

- The topography, shape, size and drainage of the lot must be taken into consideration.
- Unfavorable conditions on the lot include steep slopes (cause erosion), difficulty in maintaining a lawn and/or difficult access to the property or to a garage.
- Drainage must be away from the improvements to avoid the collection of water in or around them.

Additional Parcels of Land

- Each parcel must be conveyed in its entirety.
- Parcels must be adjoined to the other, unless they comply with the following exception. Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water). Evidence that the lot is non-buildable must be included in the loan file.
- *For the Key loan program*, each parcel must be zoned as "residential."
- The entire property may contain only one residential dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. For example, the adjoining parcel may not have an additional dwelling unit. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
- The mortgage must be a valid first lien that covers each parcel.

Continued on next page

Site Analysis, (continued)

Additional Parcels of Land, continued

- When analyzing the appraisal, the following additional requirements apply:
  - the site description must accurately describe the land and any improvements included in each of the parcels,
  - the comparable sales should have adjoining parcels similar to the subject property,
  - differences in sites, adjustments to comparable sales, or lack of adjustments must be explained in the appropriate section, and
  - the appraisal report must evaluate the effect any additional land may have on the subject property's value or marketability.

Flood Hazard Area

- The lender must determine whether or not 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 (FIRM).
- The appraiser must include the specific FEMA flood zone, map number and the map's effective date.
- If property improvements are located in a Special Flood Hazard Area (zones A, AE, AH, AO, AR, A1-30, A-99, V, VE, VO or V1-30), flood insurance is required.
- If the land is located in a Special Flood Hazard Area but the improvements are not, flood insurance is not required.
- The appraiser must provide a clear, detailed and accurate description of the improvements. The appraiser should be as specific as possible (i.e., commenting on needed repairs, additional features, modernization, etc.) and should provide supporting addenda, if necessary.
- In all cases, the subject property must be habitable as a year-round residence.

Improvement Analysis

General

- The appraiser must provide a clear, detailed and accurate description of the improvements.
- The appraiser must indicate the number of stories/levels for the subject property. Use of any designators or descriptors, such as '1 story' or 'one story and a half' are not acceptable.
- The appraiser should enter an appropriate architectural design (style) type descriptor that best describes the subject property. Valid descriptions include, but are not limited to, 'Colonial', 'Rambler', 'Georgian', 'Farmhouse'. Use of descriptors such as 'brick', '2 stories', 'average', 'conventional', or 'typical' are not acceptable as these are not architectural styles. Design style names may vary and should be reported based upon locality.
- The appraiser should be as specific as possible (i.e., commenting on needed repairs, additional features, modernization, etc.) and should provide supporting addenda, if necessary.
- In all cases, the subject property must be habitable as a year-round residence; however, acceptability of non-traditional types of housing is subject to specific product eligibility.
- In all cases, the product description should be consulted for additional acceptability requirements.

Continued on next page

Improvement Analysis, (continued)

General, continued

- If a basement exists, the appraiser must indicate the square footage of the basement and the percentage of the basement that is finished. If there is no basement, enter a numerical zero (0) in both fields, not "None".
- The appraiser should select the heating and /or cooling types. If there is no heating or cooling source, the appraiser should indicate 'other' and enter 'None'.
- The appraiser should select the appropriate checkbox(es) to indicate the amenities available. The appraiser should enter the numerical zero (0) in the appropriate space if there are no fireplaces or woodstoves. The appraiser should enter 'None' in the appropriate space if there is no patio/deck, pool, fence, porch, or other amenity. This must match the Sales Comparison Approach section for the subject.
- The appraiser must indicate whether the subject has a driveway, garage, and/or carport, or has no car storage. If the subject property has a driveway, garage, and/or carport, the appraiser must enter the number of spaces for each type of car storage; if none enter the numerical zero (0). This must match the Sales Comparison Approach section for the subject property.
- If the appraiser notates in the appraisal that there is an addition(s) that does not have the required permit, then the appraiser must comment as to the impact of the addition on the value and marketability of the subject property, as well as its quality and condition.
    - The loan file must include a copy of the homeowner's insurance policy that covers the unpermitted addition, along with documentation from the city/county that the unpermitted addition is recognized and can be rebuilt.

Conformity to Neighborhood

- The improvements should generally conform to the neighborhood in terms of age, type, design and materials used for their construction.
- Special considerations should be given to properties that represent unique housing for the subject neighborhood.
- Non-traditional types of housing (i.e., log homes, earth homes or geodesic domes) may be acceptable if the appraiser has adequate information to develop a reliable estimate of market value.

  Note: Refer to the individual product description for acceptability of unique properties under the topic "Ineligible Properties."

- Dwelling units of any type should contain sufficient living area to be acceptable to typical purchasers or tenants in the subject market area. In addition, comparables should be of similar size to the subject property.

Continued on next page

Improvement Analysis, (continued)

Actual and Effective Ages

- Actual age is the subject's chronological age. Effective age is indicated by the condition and utility of the property.
- The appraiser must indicate the year the subject was built. If it is unknown or unavailable to the appraiser within the normal course of business, the appraiser must estimate the year the subject was built.
- 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 will generally have an effective age somewhat lower than its actual age.
- If the appraiser makes a value adjustment for the effective age, the appraiser must provide an explanation for the adjustments and the condition of the property.
- Whenever adjustments are made to an appraisal for the year the dwelling was built, the appraisal must provide an explanation for the adjustments.
- A property that has been poorly maintained may have an effective age higher than its actual age.

Layout and Floor Plans

- Unusual layouts, peculiar floor plans, or inadequate equipment or amenities generally have limited market appeal.
- If such inadequacies will result in market resistance to the subject property, the appraiser must make appropriate adjustments.

Unit/Room List

- The appraisal contains a "room list" section for the subject property and provides a column for the square footage per level. In addition, it also provides a space for a summary of the above-grade room count(s) and the above-grade gross living area for the finished area.
- If using the *Small Residential Income Property Appraisal Report*, the appraisal contains a "unit/room" list for the subject property and requires the appraiser to indicate the square feet per unit. The appraiser may report the units individually or as a single line entry if they are all equal in size. The total square footage should reflect the net rentable area of the property.
- Comparable sales should have a similar bedroom count as compared to the subject property (i.e., if subject property is a two (2) bedroom, at least two (2) comparable sales should have two (2) bedrooms).
- If two (2) comparable sales are not available, then the appraiser must provide an explanation as to why he/she used the specific comparables.

Continued on next page

Improvement Analysis, (continued)

Gross Living Area

- The most common comparison for single-family properties (including condos) is above-grade gross living area. The appraiser must enter the total number of bedroom(s) and full and partial bathroom(s) above grade. The number of full and half baths must be entered, separated by a decimal. The full bath count is represented to the left of the decimal, and half bath count is represented to the right of the decimal. This must match the Sales Comparison Approach section for the subject property.
- If the property is a condo unit, the interior perimeter unit dimensions must be used to calculate the gross living area.
- If the property is not a condominium unit, the exterior building dimensions per floor must be used to calculate the above-grade gross living area.
- Only finished above-grade areas should be used. Basements (including those that are partially above-grade) and garages should not be included.
- A level is considered below-grade if any portion of it is below-grade, regardless of the quality of its “finish” or the window area of any room.
- The appraiser should report a basement or other partially below-grade areas separately and make appropriate adjustments for them on the “basement and finished areas below-grade” line on the “sales comparison analysis” grid.

Gross Building Area

- Gross building area, which 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-family properties.
- It should include all finished above-grade and below-grade living areas but exclude exterior common areas (i.e., open stairways).

Infestation, Dampness, or Settlement/Detrimental Conditions

- If the appraisal indicates evidence of 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.
- Termite inspections are not a requirement unless required by state or local law.

  Truist Note: A termite/wood-boring insect report is acceptable for 90 days from the date of the report, unless a different timeframe is otherwise stated in the report or required by state or local law.

Continued on next page

Improvement Analysis, (continued)

Accessory Units

- An accessory dwelling unit (i.e., in-law suite) is an additional living area independent of the primary dwelling unit, and includes a fully functioning kitchen and bathroom. The accessory unit may be attached or detached from the primary unit, or may be located within the interior of the primary unit such as the basement, attic or a built-in living area over a garage.
- Whether a property is a one-unit property with an accessory unit or a two-unit property will be based on the characteristics of the property, which may include, but are not limited to, the existence of separate utilities, a unique postal address, and whether the unit is rented.
- If the property contains an accessory dwelling unit, the property is eligible under the following conditions:
  - The property is one-unit.
  - The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
  - The borrower qualifies for the mortgage without considering any rental income from the accessory unit.
- The appraiser is required to provide a description of the accessory dwelling unit, and analyze any impact it has on the value or marketability of the subject property.
- If it is determined that the property contains an accessory dwelling unit that does not comply with local zoning requirements, the property may be eligible under the following additional conditions:
  - The homeowners insurance policy must cover the accessory dwelling unit, along with documentation from the city/county that the accessory unit is recognized and can be rebuilt;
  - The use conforms to the subject neighborhood and to the market;
  - The property is appraised based upon its current use;
  - The appraiser must address that the improvements represent a use that does not comply with zoning; and
  - The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least three comparable properties that have the same non-compliant zoning use.

Continued on next page

Property Condition and Appraiser Comments

General

- The appraiser must express an opinion about the condition of the improvements in factual, specific terms.
- Any condition affecting the value or marketability of the subject property must be reported, including any detrimental condition of the improvements even if that condition is typical for competing properties.
- Overall condition rating (C1 through C6) – The appraiser must select one of the above ratings that bests describes the overall condition of the subject property or unit. Only one selection is permitted. The rating for the subject property must match the overall condition rating that is reported in the Sales Comparison Approach section. The appraiser must indicate 'Yes' or 'No' if there has been any material work done to the kitchen(s) or bathroom(s) in the prior 15 years. If 'No', the text should read 'No updates in the prior 15 years'. If 'Yes', additional information for kitchens and bathrooms must be provided. The appraiser must identify any work completed in the kitchen(s) and bathroom(s) along with the timeframes in which the work was completed. The appraiser must select one value for the Level of Work Completed (not updated, updated, remodeled) for both the kitchen(s) and bathroom(s). Timeframes (less than one year ago, one to five years ago, six to ten years ago, eleven to fifteen years ago, or timeframe unknown) represent the time period in which the majority of the improvements were completed.
  - If the condition rating is C5, the property will be eligible only if the repairs necessary to resolve the stated deficiencies are completed prior to closing and the file contains a final inspection that reflects a revised condition rating of C4 or better.
  - If the condition rating is C6, the property does not meet eligibility requirements.
- The appraiser must select one Quality of Construction rating (Q1 through Q6) for the subject property and each comparable property. The appraiser must indicate the quality rating that best describes the overall quality of the property. Only one selection is permitted. If the Quality rating is Q6, the property does not meet eligibility requirements.

Continued on next page

Property Condition and Appraiser Comments, (continued)

Remaining Economic Life

- The remaining economic life, although required in the appraisal report, does not need to be considered because any related property deficiencies will be addressed in the appropriate section of the report.
- There are no requirements that the mortgage term have any correlation to the remaining economic life of the subject property, except as follows:
  - for VA, the remaining economic life must meet or exceed the term of the proposed loan,
    - if the appraiser reports the remaining economic life as being less than thirty (30) years, the appraiser must adequately explain this conclusion and cannot be arbitrarily established.

Contaminated Sites, Hazardous Substances and other Adverse Conditions

- The appraiser must note the presence of contaminated sites or hazardous substances in the appraisal report and must:
  - 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; and
  - make appropriate adjustments in the overall analysis of the property's value.
- Examples of such contamination or hazardous substances include, but are not limited to, the following:
  - presence of asbestos, urea-formaldehyde or similar insulation in the dwelling,
  - presence of any hazardous waste, toxic substances or radon gas on the subject property,
  - proximity of the property and/or its neighborhood to a contaminated site,
  - proximity of the property to ground water contamination, chemical or petroleum spills, and/or
  - other hazardous substances that are expected to impact the area for more than one (1) year.
- The appraiser must also note the proximity of the property to areas that may affect the value of marketability of the property, including, but not limited to, the following:
  - industrial sites,
  - waste or water treatment facilities,
  - commercial establishments (other than retail establishments that serve the residential neighborhood),
  - airport approach paths,
  - flood plains,
  - landslide areas, and/or
  - earthquake zones.

Continued on next page

Property Condition and Appraiser Comments, (continued)

Contaminated Sites, Hazardous Substances and other Adverse Conditions, continued

- The lender must determine whether any additional inspections are necessary based on the appraisal information of any hazardous or adverse conditions impacting the subject property, to ensure adequacy of the property as security for the mortgage.

Appraiser Comments

The appraiser must address any additional features, modernization, remodeling, or needed repairs or any physical, functional or external inadequacies in the "Comments" section.

Clarification on Minor Repairs to Existing Property

- If the appraiser reports the existence of minor conditions or deferred maintenance items that do not affect the livability, soundness, or structural integrity of the property, the appraiser may complete the appraisal "as is" and these items must be reflected in the appraiser's opinion of value.
  - Minor conditions and deferred maintenance items include, but are not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass. Minor conditions and deferred maintenance are typically due to normal wear and tear from the aging process and the occupancy of the property.
- When there are incomplete items or conditions that affect the livability, soundness, or structural integrity, the property must be appraised "subject to completion" of the specific alterations or repairs.
  - These items include, but are not limited to, a partially completed addition or renovation, or physical deficiencies that could affect the soundness or structural integrity of the improvements including but not limited to cracks or settlement in the foundation, water seepage, active roof leaks, curled or cupped roof shingles, or inadequate electrical service or plumbing fixtures.
  - In such cases, a final inspection (Fannie Mae 1004D/Freddie Mac 442) from the appraiser is required before the loan can close.

Valuation Analysis

- The valuation analysis allows the appraiser to develop and report in concise format an adequately supported estimate of market value.
- This analysis is based on the cost, sales comparison and income approaches to value and, in the case of small residential income properties, on comparable rental data.

Continued on next page

Cost Approach

General

- The cost approach to value assumes that a potential purchaser will consider building a substitute residence that has the same use as the property that is being appraised; thereby, measuring value as a cost of production.
- Valid reproduction cost estimates, proper depreciation estimates, and accurate site values drive the reliability of the cost approach.
- As the effective age of a property increases, the reliability of the cost approach may decrease because of the difficulty in accurately estimating accrued depreciation.
- If the appraiser does not develop the cost approach, an explanation of why it was not used is required and the appraiser must provide an estimated site value.
    - Regardless of whether the cost approach is required by Fannie Mae/Freddie Mac, it may be applicable in developing credible results. The USPAP requires the appraiser to reconcile the applicability of each approach to value. Please note the following:
        - USPAP Standards Rule 1-6(b) requires the appraiser to reconcile the applicability and relevance of the approaches, methods and techniques used to arrive at the final value conclusion(s).
        - USPAP Standards Rule 2-2(b)(viii) requires the appraiser(s) to summarize the information analyzed, the appraisal methods and techniques employed, and the reasoning that supports the analysis, opinions, and conclusions; **exclusion** of the sales comparison approach, cost approach, or income approach **must** be explained.
- The appraiser should state whether reproduction cost or replacement cost was used in developing the cost approach because the two terms are not synonymous.
    - Reproduction Cost: The cost of duplicating the subject property structure completely using the original construction methods and materials.
    - Replacement Cost: The cost of building a similar structure, but using modern construction methods and materials.
- The appraiser’s analysis and comments for the cost approach should be consistent with comments and adjustments mentioned elsewhere in the appraisal report.
- There are three types of depreciation considered in the cost approach - physical, functional and external.

Physical Depreciation

- Physical depreciation, which is traditionally referred to a physical deterioration, is a loss in value that is caused by deterioration in the physical condition of the improvements.
- Physical deterioration is classified as "curable" or "incurable".
- Curable physical deterioration refers to items of deferred maintenance, such as painting or items currently in need of repair (a broken stair rail, for example).
- Incurable physical deterioration refers to other items that currently are not practical or feasible to correct.

Continued on next page

Cost Approach, (continued)

Functional Depreciation

- Functional depreciation, which is traditionally referred to as functional obsolescence, is a loss in value caused by defects in the design of a structure (i.e., inadequacies in the architecture, floor plan, or sizes and types of rooms).
- Changes in market preferences that result in some aspect of the improvements considered obsolete by current standards (i.e., location of a bedroom on a level with no bathroom or access to a bedroom through another bedroom) may also cause functional depreciation.

External Depreciation

- External depreciation, which is traditionally referred to as economic obsolescence, is a loss in value that is caused by negative influences that are outside of the site (i.e., economic factors or environmental changes).
- Shopping centers, expressways or factories that are adjacent to the subject property are examples of external depreciation.

Comparable Rent Data

- If the subject property is a two- to four-family investment property, the most current and most comparable rental properties that are available should be used to develop an estimated market rent for the subject property.
- Three rental comparables should be provided and are not required to be the same comparables used in the sales comparison approach.
- The appraiser should provide support for the estimated market rents for the individual subject units, with information about lease dates, number of vacant units, actual rents and estimated market rents for the subject property.

Continued to the next page

Sales Comparison Approach

General

- The sales comparison approach to value, which is traditionally referred to as the market data approach, is an analysis of comparable sales, contract offerings and current listings of properties that are the most comparable to the subject property.
- The Uniform Standards of Professional Appraisal Practice (USPAP) require the appraiser to report a minimum three year prior sales history for the subject property. The appraiser's analysis of a property must take into consideration all factors that have an impact on value and recognize that a well-informed or well-advised purchaser will pay no more for a property than the price of a similar property of equal desirability and utility if it were purchased without undue delay.
- The appraiser must be consistent throughout the appraisal with all information as some information flows to the Sales Comparison Approach section (i.e. address, sales price, sale or financing concessions, data source, site, view, condition rating, room count, gross living area, etc.)
- If subject property and/or any of the comparable properties have a sales price that is not in whole numbers the appraiser should round the sales price to the nearest whole dollar. If any of the comparable properties are a listing or pending sale, the appraiser must enter the offering price or contract price as applicable.
- The appraiser must analyze the closed or settled sales, the contract sales, and the offering 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 his or her opinion of value for the subject property.
- This is particularly important in declining markets because the competing listings and contract sales probably reflect the upper-end of the value for the subject property as of the effective date of the appraisal.
- This analysis will result in more accurate reporting on market conditions, including trends that indicate sales prices for contract sales and asking prices for recent offerings or listings that have declined.
- The comparable market must be verified, analyzed and adjusted for differences between the comparable properties and the subject property.

Continued on next page

Sales Comparison Approach, (continued)

Selecting the Comparables

- Truist requires the appraiser to research, analyze and consider influences that may affect value based on market evidence, such as closed sales, contract sales and properties for sale in the market area.
- It is important that the appraiser establish the true market value of the subject property by encompassing all available sales, which include REO/foreclosed properties.
- If the appraiser believes a foreclosure sale or a short sale is an appropriate comparable, then the appraiser must identify and consider any differences from the subject property, such as the condition of the property. The appraiser cannot assume it is equal to the subject.
- A foreclosure or short sale property may be in worse condition when compared to the subject property, especially if the subject property is new construct ion or was recently renovated.
- If the property is located in or close to a neighborhood that includes areas such as an airport, hazardous waste site, relatively high property taxes or vacant and boarded up properties, Truist expects the appraiser to research, analyze and use comparables sales from the same neighborhood or affected area (whenever possible) in the appraisal analysis. This will ensure that any effect of these value-influencing characteristics is taken into consideration in the development of the opinion of the value for the property.
- The appraiser must select one location rating (N-Neutral, B- Beneficial, A-Adverse) to describe the overall effect on value and marketability of the location factor(s) associated with the subject property and each comparable property. The appraiser must also select at least one, but not more than two, location factors (Res- residential, Ind- industrial, Comm- commercial, BsyRd- Busy Road, WtrFr- water front, GlfCse- golf course, AdjPrk- Adjacent to park, AdjPwr-adjacent to power lines, Lndfl- Landfill, PubTrn- Public Transportation, Other-appraiser must enter a description that fits in the allowable field space. Descriptors such as 'None', 'N/A', 'Typical', 'Average', etc. are not acceptable.

  Click here to access a glossary of abbreviations used in Data Standardization Text.

- The appraiser must select one Quality of Construction rating (Q1 through Q6) for the subject property and each comparable property. The appraiser must indicate the quality rating that best describes the overall quality of the property. Only one selection is permitted. If the Quality rating is Q6, the property does not meet eligibility requirements.
- The appraiser must report the actual age of the subject property and each comparable property. For new construction that is less than one year old, enter the numeral zero (0). No additional information such as 'years' or other descriptors are permitted. If the actual age is unknown, enter the estimated age.
- The appraiser must report total square footage of the property improvements below grade on line 1 – if there is no basement, enter numeral zero (0). No other information may be entered. On line 2 the appraiser must report the number of each type of finished rooms in the basement with the room type (RR-recreation room, br- bedroom, ba- bathroom, o- other. If there are no rooms of a particular type, the appraiser will enter zero (0).

Continued on next page

Sales Comparison Approach, (continued)

Selecting the Comparables, continued

- The appraiser must enter any energy efficient items for the subject property and each comparable property. If there are no energy efficient items, enter 'None".
- The appraiser must indicate the total number of off-street parking spaces associated with the subject property and each comparable property. If there is no off-street parking, enter 'None.'
- The comparables must be within reasonable proximity to demonstrate similar market conditions. The appraiser must enter the proximity of the comparable sales to the subject property, expressed as a distance in miles. The distance between the subject property and each comparable property is to be measured using a straight line between the properties. The direction of the comparable property in relation to the subject property must be expressed (north, south, east, and west).
    - If the area is urban or suburban, a reasonable distance may be up to one (1) mile.
    - If the area is rural or if the property is unique, the appraiser may have to go farther than is typically acceptable. An explanation should be provided when distance comparables are used.
- The appraiser must enter the financing type, on line 2 of the concessions section, (FHA, VA, Conv-Conventional, Seller, Cash, RH- USDA- Rural Housing, Other – appraiser must fit description of other financing in allowable space) and the total amount of any concessions, if any, for each settled sale.
- It is preferable for the appraiser to provide comparables from the subject's neighborhood; however, the appraiser may need to use comparables from competing neighborhoods to perform an accurate analysis.
- The appraiser must not expand the neighborhood boundaries just to encompass the comparables selected.
- The appraiser must indicate the comparables that are from a competing neighborhood and provide an explanation of any differences that exist between the neighborhoods. In addition, the appraiser must explain why he/she used the specific comparable sales.
- At least three (3) comparable sales must be used as part of the sales comparison approach. More than three (3) may be used; however, the appraiser must have at least three (3) that are settled or closed sales.

  Note: The subject property may be used as a fourth comparable sale or as supporting data if it was previously sold and closed within the last 12 months prior to the closing date. However, in no instance may the appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home (although this type of information may be included as additional supporting documentation).

Continued on next page

Sales Comparison Approach, (continued)

Selecting the Comparables, continued

- Generally, the comparable sales must have settled or closed within the last twelve (12) months prior to the date of the appraisal. However, the best and most appropriate comparable sales may not always be the most recent sales. 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, the appraiser may use older comparable sales as additional supporting information if he/she believes that it is appropriate and selects comparable sales that are the best indicators of value for the subject property.
- For unique properties:
  - It is acceptable 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.
  - If the appraiser is not able to find any evidence of market acceptance, and the characteristics of the property are so significantly different that he or she cannot establish a reliable opinion of market value, the property is not acceptable.
- *For Key Loans*, the appraiser must comment on the reasons for using any comparable sales that are more than six (6) months old.
- If the subject property is located in an established subdivision, condominium project or PUD project, the appraiser should use comparable sales from within the same subdivision or project if there are any available. Generally, re-sales from the subject's subdivision or project provide the best indication of value in that subdivision or project. The appraiser should comment on the use of comparable sales from outside of the subject neighborhood.
- If the subject property is located in a new subdivision, condominium project or PUD project, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject subdivision or project. At least one (1) comparable sale should be selected from within the subject subdivision or project and one (1) from outside. The third comparable can be from inside or outside the subdivision or project.
- When the appraiser is provided with comparables sales data by a party that has a financial interest in the transaction, Truist requires the appraiser to verify the data with a disinterested party.

Continued on next page

Sales Comparison Approach (continued)

Selecting the Comparables, continued

- Data and/or verification sources for each comparable sale must be reported on the appraisal report form. The appraiser must provide the data source(s) utilized to obtain the data for each comparable sale. When using MLS as the data source, the MLS organization acronym or abbreviations followed by '#" and the listing identifier (numbers and letters) must be reported. If the appraiser utilizes additional data sources that do not fit into this data field, they must be provided in the comments section or addenda in the appraisal report. The appraiser must also provide the DOM (Days on Market) for each comparable sale for the latest time period that the property was listed or advertised for sale. For each comparable property, the appraiser must first identify the status type (Active, Contract, Expired, Withdrawn, Settled sale). Status type using acceptable abbreviation ('c' – contract date, 'w'- withdrawn date, 's' – settlement date, 'e' – expiration date) followed by the corresponding date in mm/yy format.
- Verification sources include but are not limited to, the buyer, seller, listing agent, selling agent, and closing documents in certain situations.
- Regardless of the sources 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.
- When appraising new construction, the appraiser may need to rely solely on the builder of the property to provide comparable sales data, as this data may not yet be available through typical data sources such as public records or multiple listing services. In this case, 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.
- It is considered best practice to include at least one (1) resale from the subdivision or project. If there are no re-sales available, then the appraiser should include new home sales from a competing homebuilder. All three comparable sales should not be new home sales from the same builder.
- If the appraiser utilizes comparable sales outside of the subject's neighborhood when closer comparable sales appear to be available, the appraiser must provide an explanation as to why he/she used the specific comparable sales.
- There may be a need for the appraiser to select comparable sales that is a considerable distance from the subject property. In this case, the appraiser must apply good judgment in the selection and provide an explanation as to why the particular comparable(s) were selected in the analysis. This is particularly true in rural markets.
- If the subject property is in a controlled market, there must be at least one comparable sale outside the control of the developer, builder or property seller.
- If the subject property has unusual features or atypical utilities, the appraiser must supply additional comparable sales to support marketability and adjustments made to comparable sales.
- House numbers for each of the comparable sales must match the house numbers in the photographs.
- Weather conditions in the photograph of the properties are appropriate for the date of the appraisal; i.e., July photograph does not show snow on the ground for a property in Illinois.

Continued on next page

Sales Comparison Approach, (continued)

Comparables for Two (2)- to Four (4)- Unit Rental Properties

- The appraiser must provide analysis of the most current and most comparable rental properties that are available to develop an estimated market rent for the subject property.
- At least three (3) rental comparables, which do not have to be the same comparables in the sales comparison analysis, must be reported and analyzed by the appraiser.
- The comparable rental data must support the estimated market rents for the individual subject units and provide the following information.
  - Lease dates
  - Number of vacant units
  - Actual rents
  - Estimated market rents for the subject property.
- The appraisal report should ensure the units and properties selected as comparables are:
  - comparable to the subject property in terms of both the units and overall property, and
  - accurately represent the rental market for the subject property, unless otherwise stated in the appraisal report.

Rural Properties

References: See "Degree of Development and Growth Rate" in the "Neighborhood Analysis" subtopic previously presented in this document for additional information.

Unadjusted Units of Comparison

If the subject property is a two- to four-family property, the appraiser must report certain unadjusted units of comparison for the subject property and comparable sales (i.e., sales price per gross building area, sales price per unit and sales price per room).

Sales Comparison Analysis Adjustment Grid

- The sales price of each comparable sale should be within the general range of the estimate of market value for the subject property.
- Comparable sales should be of properties sold as arm's length transactions in stable market areas.
- Appraisers should be selecting comparable sales containing the same amenities as the subject, such as basements, garages, in ground pools, and similar acreage lots. The appraiser must adjust for atypical sales or financing concessions.

  Reference: See the "Adjustments to Comparable Sales" subtopic subsequently outlined in this document for additional information.

Continued on next page

Sales Comparison Approach, (continued)

Appraiser's Comments and Indicated Value

- The appraiser must select the appropriate checkbox to indicate either 'did' or 'did not' research prior sales or transfers of the subject property for the prior 3 years to the effective date of the appraisal. Only one response is permitted.
- The appraiser must report the date(s) and price(s) of prior sales(s) or transfer(s) of Subject property for the three years prior to the effective date of the appraisal. The appraiser must report the date(s) and price(s) of prior sales(s) or transfer(s) of any comparable property during the twelve months prior to its date of sale. If more than one prior transfer of the subject or any of the comparable sale(s) occurred within the applicable time period, the additional transfer(s) must be listed and reported in the "Analysis of Prior Sale or Transfer History of the subject property and comparable sales" field.
- The appraiser must report on each occurrence or listing and provide the data source(s), offering prices and date(s). The appraiser must enter the data source(s) and effective date(s) of the data source(s) associated with the prior transfer(s) of each property. If the data source is MLS, the appraiser must enter the abbreviated MLS organization name, followed by a pound sign (#) and the specific listing identifier.
- The appraiser's comments should also include a reconciliation of the adjusted values for the comparable sales and identify the comparable(s) that were given the most weight in arriving at the indicated value for the subject property. The appraiser must enter the reconciled value of the Sales Comparison Approach in whole dollars only.
- If the subject property is a two- to four-family property, the appraiser should also provide an evaluation of the typical purchaser's motivation for purchasing the property and an analysis of any current agreement of sales, option, or listing for the subject property.

Continued on next page

Adjustments to Comparable Sales

- **Analysis of Adjustments**
  - There are no specific limitations or standards 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.

    Reference: See the comparable sales guidance outlined in this topic for additional information.

  - 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.

    Reference: See the "Contributions by Interested Parties" topic in the applicable product description and Section 1.13: Interested Party Contributions Limits Standard of the *Correspondent Seller Guide* for information related to sales or financing concessions for the subject transaction.

  - 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 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.

Continued on next page

Adjustments to Comparable Sales, (continued)

- **Sales or Financing Concessions**, continued
  - 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. 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.
  - 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.
  - 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.

Continued on next page

Adjustments to Comparable Sales, (continued)

- **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 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.

Continued on next page

Environmental Hazards Appraisal Requirements

- **Overview**
  - Truist purchases or securitizes mortgage loans secured by properties affected by environmental hazards are eligible 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 Truist.
- **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.
  - Truist 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: Truist 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.

Continued on next page

Environmental Hazards Appraisal Requirements, *continued*

- **Lender Requirements**
  - Truist 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. Truist 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 Truist 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.

Income Approach

- Appraisers that rely solely on the income approach to value as an indicator of value are not acceptable. The appraisal report must include the appropriate supporting comparable rental and sales data and the calculations used to determine the gross rent multiplier.
- The income approach is required if the subject property is a 2-4 unit property and the determined value must support the sales comparison approach.
- The appraiser should supply unadjusted units of comparison.
- For purchase transactions, the appraisal should indicate what factors in the market investors consider most important.
- 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.
- Generally, it is appropriate in neighborhoods of single-family properties that have a substantial rental market, as well as for two- to four-family properties. It is not appropriate in areas that consist mostly of owner-occupied properties.
- To calculate the indicated value by the income approach, the appraiser multiplies the total gross estimated monthly market rent (based on an analysis of comparable rentals) for the subject property by a reconciled gross monthly rent multiplier (determined by dividing the sales prices of the comparables that were rented by the time of sale by their monthly market rent).

Final Reconciliation

- The reconciliation is where the final opinion of market value is provided.
- The appraiser must select either the 'as is' or at least one of the 'subject to' checkboxes. If any of the 'subject to' checkboxes are selected, a detailed description is required.
- The appraiser must enter the value of the subject property. The value of the subject property must match the appraised value of the subject property in the Appraiser Certification section.
- In the final reconciliation of the appraisal report, the appraiser must reconcile the reasonableness and reliability of each approach to value and the reasonableness and validity of the indicated values and available data.
- The appraiser must explain any material differences in the property information or information about the transaction that is not typical for the market.
- The approach or approaches that were given the most weight are then selected and reported.
- The final reconciliation is never an averaging technique.
- The effective date of the appraisal is dated after ratification of the sales contract. The appraiser must enter the date of the inspection, which is the effective date of the appraisal in mm/dd/yyyy format.

Continued on next page

Uniform Collateral Data Portal (UCDP)

Overview

As part of the critical appraisal data standardization effort by Fannie Mae and Freddie Mac, the UCDP will:

- provide lenders with greater confidence in loan quality by offering enhanced appraisal data quality and integrity checks,
- create efficiency and consistency in appraisal reviews by offering appraisers and lenders an improved view and understanding of GSE appraisal data requirements, and
- support processes to manage and mitigate valuation risk by resolving inconsistencies with appraisal data, including formatting, terminology, and use of specific descriptions.

The following appraisal types are required to be submitted to the UCDP:

- Uniform Residential Appraisal Report (Fannie Mae Form 1004/Freddie Mac Form 70) (UAD form),
- Small Residential Income Property (Fannie Mae 1025/Freddie Mac 72),
- Individual Condominium Unit (Fannie Mae 1073/Freddie Mac 465) (UAD form),
- Exterior-Only Inspection Condominium Unit Appraisal Report (Freddie Mac 466) (UAD form), and
- Exterior Only Inspection Residential Appraisal Report (Freddie Mac 2055) (UAD form).

Note: Truist does not accept the Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Freddie Mac Form 466) or the Exterior-Only Inspection Residential Appraisal Report (Freddie Mac Form 2055).

Process

- It is the responsibility of the Correspondent Lender to supply Truist with both a “Successful” Summary Submission Report and Doc File ID for all conventional loan files, including the Key Loan Program. FHA, RD, and VA appraisals are currently exempt from UCDP submission.
- The “Successful” Summary Submission Report MUST be from the FINAL version of the appraisal used for the final loan decision.

  Note: 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 UDCP.

Energy Efficient Improvements

General

Agency Loan Programs

Reference: See the “Improvements Section of the Appraisal Report” subtopic in the “Appraisal Analysis: Agency Loan Program” topic previously presented in this document for standards.

Non-Agency Loan Programs

- 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, 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. If the appraiser’s analysis determines that an adjustment is warranted based on the market reaction to such item(s), the adjustment must be included in the adjustment grid.
- Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement are to be considered personal property items and are not included in the appraised value of the property.

Transfer / Re-assignment of Appraisal Reports

General

Overview
Truist requires transferred or re-assigned appraisals to be acceptable without corrections, revisions or updates.

Agency Loan Programs
Reference: See "Appraisal Age, Appraisal Update and Appraisal Use Requirements" in the "Appraisal Requirements" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for requirements.

Key Loan Program
Reference: See "Transferred Appraisals" topic outlined in Section 2.06: Key Loan Standard of the *Correspondent Seller Guide* for standards.

Field Reviews

Standards

Correspondent lenders must refer to the specific product description for field review requirements. If a field review is required, the Correspondent lender is responsible for ordering and absorbing the costs associated with obtaining the field review.

Representations and Warrants

Representations and Warrants

The Correspondent lender shall certify, represent and warrant that all appraisals are obtained in compliance with the Appraiser Independence Requirements.

- If it is determined the Correspondent lender is in breach of a material aspect of the Appraiser Independence Requirements, Truist will enforce all applicable rights and remedies, including suspension or termination of the lender's eligibility to sell loans to Truist.

Compliance

General

Correspondent Lenders must adopt written policies and procedures implementing Appraiser Independence Requirements. This may require adequate training to employees and establishing disciplinary rules on appraiser independence. As a reminder, Correspondent Lenders are responsible for adhering to all regulatory lending requirements. Truist relies upon the Correspondent Lender's representations and warranties that the loans delivered to Truist are enforceable in accordance with the terms of the Conventional Loan Purchase Agreement.

Requests for an Updated Value and Re-Certification of Value

General

Agency Loan Programs
Reference: See "Appraisal Age, Appraisal Update and Appraisal Use Requirements" in the "Appraisal Requirements" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for requirements.

Key Loan Program

- An *Appraisal Update and/or Completion Report* (Fannie Mae 1004D/Freddie Mac Form 442) is used by an appraiser to confirm whether conditions of a prior appraisal have been met or to re-certify the value. Conditions of an appraisal are subject to completion for new construction or subject to repairs for existing properties. A re-certification DOES NOT change the effective date of the original appraisal report or the value opinion.
- An *Appraisal Update and/or Completion Report* (Fannie Mae 1004D/Freddie Mac Form442) is also used when a lender seeks a more current value. This is **not an extension** of the prior appraisal assignment that has been completed, but is a new request. This occurs when the appraisal report is older than the allowed time frame for the underwriting or closing process and the appraiser must determine if the value of the subject property is unchanged or has declined from the original estimate of value. The same requirements apply when appraising or analyzing a property that was the subject of a prior appraisal assignment.
- The *Appraisal Update and/or Completion Report* (Fannie Mae 1004D/Freddie Mac Form 442) must contain sufficient information to be meaningful and not misleading. The appraiser must, at a minimum:
  - concur with the original appraisal,
  - perform an exterior inspection of the subject property from at least the street, and
  - research, verify, and analyze current market data in order to determine if the property has declined in value since the effective date of the original appraisal.
- For new or proposed construction, clear, descriptive photographs (in color) of the completed improvements must accompany this report form.
- Any other data, as an attachment or addendum to the appraisal report form, that is necessary to provide an adequately supported opinion of market value, must also be included,
- Lenders may experience an increase in the fee charged by an appraiser to issue an update. Lenders may want to inquire prior to the request regarding the fees.
- If the original appraiser is not available to provide an update of value, a request for an update to a qualified appraiser will constitute a new request and a full appraisal fee may be charged.

Appraisal Date Requirements

Standards

Agency Loan Programs
Reference: See "Appraisal Age, Appraisal Update and Appraisal Use Requirements" in the "Appraisal Requirements" topic outlined in Section 2.01: Agency Loan Standard of the *Correspondent Seller Guide* for requirements.

Key Loan Program

- The re-use of an origination appraisal for a subsequent transaction is allowed if the following requirements are met:
  - The subsequent transaction may only be a limited cash-out (rate/term) 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 120 days from the date of the original note and mortgage and the subject is not located in a county on the Truist Declining Market Index, then an appraisal update is required. See the preceding section, "Appraisal Date Requirements", for requirements for completing an appraisal update.
  - If the subject property is located in a county on the Truist Declining Market Index, a new appraisal is required.
  - The borrower and the lender/client must be the same on the original and subsequent transaction, with the following exception:
    - In the event of a divorce or legal separation, the borrower for the new transaction must be one of the borrowers on the prior transaction, and the file must document that the borrower for the new transaction obtained the property through a divorce or legal separation.

  Note: The appraisal must comply with all other appraisal requirements.

- **Existing Properties**
  - ***The Key Loan Program*** must follow the appraisal date requirements outlined below:
    - 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 120 days 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 requirement applies regardless of whether the property was appraised as proposed or existing construction. The appraisal update must occur within 120 days 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 appraiser's 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.

Continued on next page

Appraisal Date Requirements, Continued

Guidelines, continued

- **Existing Properties**, continued
    - 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.

- **New Construction Properties**
    - ***The Key Loan Program*** must follow the appraisal date requirements outlined below.
        - 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 120 days 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 requirement applies regardless of whether the property was appraised as proposed or existing construction. The appraisal update must occur within 120 days 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 appraiser's 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.

Electronic Transmission

Electronically Transmitted Appraisals	• Truist will accept appraisals e-mailed to the following address: correspondentappraisals@truist.com.
	• Each appraisal must clearly identify the following information:
	  • loan number,
	  • borrower (s) name (s),
	  • correspondent name, and
	  • lender contact information.
	• The Correspondent lender must warrant that the subject property value is supported. This type of appraisal is acceptable for all Fannie Mae and/or Freddie Mac loan products. All other loan products are subject to the individual appraisal standards in the product description.

Exhibit I: Truist Ineligible List

Click here for instructions on accessing the *Truist Ineligible List.*