



Announcement 04-02

June 1, 2004

Amends these Guides: Selling

Test Period for Revised Appraisal Report Forms

We are continuing our efforts to enhance the property valuation and appraisal reporting processes through the development of test appraisal report forms, which will be released in stages as detailed below. These test forms are a continuation of the work we began when we developed the property valuation component of Desktop Underwriter® (DU). At that time, we developed more concise appraisal report forms, offered an exterior-only property inspection option, and reduced the amount of required appraisal report documentation. Our focus then and now is to give lenders access to a truly re-engineered and streamlined property valuation process, which enables them to more efficiently manage the overall property valuation process while maintaining property appraisal and underwriting quality.

Customers that have used the DU appraisal forms report reductions in the amount of time and costs as compared with using the standard appraisal report forms. We also received positive feedback from appraisers and lenders, including suggestions to further improve the appraisal report forms. The test forms we are now releasing incorporate those suggestions.

The form changes also further our efforts to work with state appraiser regulatory boards. As part of our quality assurance efforts, we refer unacceptable appraisal reports to the state appraiser licensing or regulatory boards for an investigation and any action they consider appropriate. As a result, we have received comments from many state appraiser boards and their investigators about the types of information that would help them in their investigations. These comments led us to re-examine the strengths and weaknesses of our appraisal report forms, and our examination provided us with the framework for consolidating and further streamlining our appraisal report forms and processes.

We would like to thank the many individuals and organizations that took the time to share their views with us, especially the Appraisal Institute for significant input on how to improve the quality of our existing appraisal report forms. This feedback has allowed us to release today the following test appraisal report forms:

- ***Uniform Residential Appraisal Report*** (Fannie Mae Test Form 1004 dated May 2004);
- ***Definitions, Statement of Limiting Conditions, and Appraiser's Certification*** (Fannie Mae Test Form 1004B dated May 2004); and
- ***Appraisal Update and/or Completion Report*** (Fannie Mae Test Form 1004D dated May 2004).

A copy of each of these test forms is attached. Any lender or appraiser who wants to participate in the testing of these report forms and/or provide comments may do so. These report forms are available for use with Desktop Underwriter-processed mortgages as well as manually-processed mortgages. Test Forms 1004 and 1004B can be used to report an appraisal of a one-unit property based on an interior and exterior property inspection. Test Form 1004D can be used for any one- to four-unit property to report an appraisal update and/or certification of completion.

Test participants should submit comments to us (either by sending them in an E-mail message addressed to test_appraisal_forms@fanniemae.com or by regular mail addressed to Fannie Mae, Test Appraisal Forms, 3900 Wisconsin Avenue, NW, Mail Stop 2H-4S-08, Washington, DC 20016) no later than **September 15, 2004**. *Lenders and appraisers may continue to use the test appraisal report forms until June 1, 2005 for purposes of satisfying Fannie Mae's appraisal requirements.*

Fannie Mae will develop and release the following test appraisal report forms for a test and comment period later this year:

- ***Exterior-Only Inspection Residential Appraisal Report;***
- ***Manufactured Home Appraisal Report;***
- ***Individual Cooperative Interest Appraisal Report;***
- ***Exterior-Only Inspection Individual Cooperative Interest Appraisal Report;***
- ***Small Residential Income Property Appraisal Report;*** and
- ***Two- to Four-Unit Residential Appraisal Field Review Report.***

Overview of Test Form 1004

The *Uniform Residential Appraisal Report* (Test Form 1004) is designed for one-unit property appraisals (including individual units in condominium and PUD projects) that are based on an interior and exterior property inspection. Test Form 1004 enables the appraiser to report the results of his or her appraisal in a more concise manner than the existing *Uniform Residential Appraisal Report* (Form 1004 dated June 1993). Direct questions have been added to the report form, which require the appraiser to comment on key areas of his or her research and analysis.

Test Form 1004 requires the appraiser to report in a clear and succinct yes/no format whether the property has any physical deficiencies or conditions (such as needed repairs and deferred maintenance) and to determine if such conditions affect the livability or soundness or structural integrity of the property. In addition, the appraiser must report whether there

are any adverse environmental conditions present in the improvements, on the site, or in the immediate vicinity of the property.

The sale history analysis section of the report form has been expanded to accommodate a three-year history for the subject property and the comparable sales as well as space for reporting the appraiser's analysis of the sale and listing history. In addition, the report form requires the appraiser to identify the effective date of his or her data source(s), identify the current owner of record for the subject property as evidenced by public record data demonstrating the seller's ownership of the property for a purchase (or the borrower's ownership for a refinance transaction), provide information on any recent listing(s) for sale for the subject property, and indicate whether the listing(s) and prior sale(s) of the subject property and prior sale(s) of the comparable sales represent arm's length transactions.

The revised format enables the appraiser to report his or her conclusions in a brief but comprehensive manner, which will be more efficient for reviewing and processing. All of our standard exhibits that are used to support an appraisal based on an interior and exterior property inspection are also required when using this test form.

Overview of Test Form 1004B

The *Definitions, Statement of Limiting Conditions, and Appraiser's Certification* (Test Form 1004B) was titled to reflect the major components of the expanded three-part form. The first section includes definitions (purpose and intended use, intended user, market value and unacceptable appraisal practices); the second section includes the appraiser's statement of limiting conditions; and the third section includes the appraiser's certification. The appraiser's certification was expanded to specifically address unacceptable appraisal practices and to address potential civil liability and/or criminal penalties for intentional or negligent misrepresentation(s).

A variety of enhancements also were made to both Test Forms 1004 and 1004B to help communicate our expectations for a high-quality appraisal, to strengthen the appraiser's accountability for the quality of his or her appraisal, and to help assure the appraiser's compliance with the Uniform Standards of Professional Appraisal Practice (USPAP).

Overview of Test Form 1004D

The *Appraisal Update and/or Completion Report* (Test Form 1004D) is a new, multi-purpose report form for any one- to four-unit property. It 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 to confirm that the requirements or conditions established in an appraisal report have been met. The use of Test Form 1004D will help to assure, in a standardized manner, that the appraisal update and/or certification of completion will meet our requirements and those of the USPAP.

Uniform Standards of Professional Appraisal Practice

The valuation analysis performed in conjunction with Test Forms 1004 and 1004B is based

solely on the sales comparison approach to value because that generally is the most reliable indicator of value for one-unit properties. In order to reduce the time and costs associated with performing the appraisal, we do not require the appraiser to develop the cost and income approaches to value. Appraisals reported on Test Form 1004 are considered limited appraisals that are subject to the Departure Rule of the USPAP if the cost and income approaches to value would otherwise be applicable under the USPAP. An appraisal documented on Test Form 1004, however, will be considered a complete appraisal when the cost and income approaches to value are not applicable because the omission of these approaches for the particular type of appraisal assignment is not a departure from the USPAP. The appraiser's certification that appears on the *Definitions, Statement of Limiting Conditions, and Appraiser's Certification* (Test Form 1004B) assumes that the appraisal is a limited appraisal unless the appraiser specifically identifies it as a complete appraisal in the report.

Fannie Mae will continue to have its own separate appraisal requirements to supplement the minimum requirements of the USPAP and to assure that all of our specific concerns are addressed for any given appraisal. For instance, Test Forms 1004 and 1004B reflect our analysis and reporting requirements that are supplemental standards to the minimum requirements of the USPAP. Our report forms are designed in a way that results in an appraiser being able to be in full compliance with our requirements if he or she addresses all of the information on the forms and presents the data accurately and completely.

Although the extent of the appraisal process an appraiser is required to complete is reflected in our appraisal report forms, the forms are not designed or intended to control the appraisal process. As with all appraisal report forms, appraisers should go beyond any limitations of a particular form by reporting any additional analysis, comments, and exhibits to adequately document the valuation process and/or to support the appraiser's conclusions. The extent of the appraiser's data collection, analysis, and reporting is determined by the complexity of the appraisal assignment, not by the form or format of the report. Therefore, if the appraiser believes that either the cost or income approach to value or additional market data is necessary for a particular appraisal, the appraiser should document the supplemental analysis or market data on the report or as an exhibit to the report form.

Lenders who have questions about this Announcement should contact their Customer Account Manager.

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Attachments