

Appraisal Forum 2023 FAQS

December 2023

Table of Contents

Table of Contents	2
Appraiser Independence	3
Property Taxes	3
Property Condition and Inspections	4
Insurance.....	5
Fair Lending	6
Targeted Affordable Housing	7
Other	7

Appraiser Independence

How can appraisers work with Freddie Mac to ensure Appraiser Independence?

Appraisers should be able to provide independent, impartial, and objective opinions of value without influence or interference from outside parties (“**Appraiser Independence**”). If the appraiser feels that their independence is being compromised, Freddie Mac encourages the appraiser to reach out directly to the Freddie Mac [Multifamily Appraisal Team mailbox](#) with the details of the situation and any supporting evidence. Freddie Mac will work with the applicable parties so that the appraiser can act independently throughout the valuation process.

What changes can we expect in 2024 regarding Appraiser Independence?

By mid-2024, Chapter 60 of the *Multifamily Seller/Service Guide* (Guide) will be updated to include a new section specifically focused on Appraiser Independence. These guidelines will incorporate the [Interagency Appraisal and Evaluation Guidelines](#) and will detail the expectations for prudent appraisal policies, procedures, and practices.

Property Taxes

What are the primary changes to the Freddie Mac Property Tax Guidance?

There are two primary updates to the Freddie Mac Property Tax Guidance. First, any assumption regarding property taxes must have a reasonable basis. Second, the tax analysis must be consistent with the definition of market value and assume a sale. The appraisal may not consider the loan purpose in the tax analysis (*i.e.*, a refinance).

How should we handle a scenario where there are anticipated changes to taxes, such as a tax abatement or reallocation?

Assumptions used in the modeling of property taxes must have a reasonable basis. If a material change is expected, documentation must be provided to support the assumption. For example, if the borrower states that they are applying for a tax abatement, they must provide documentation from the tax jurisdiction that includes the commencement date and the duration of the abatement. Furthermore, the report should reference the applicable state or local statute as to how the tax abatement will be obtained, along with an explanation as to how it will be obtained.

Property Condition and Inspections

For states that have multiple licenses (not just Certified General and Trainee), can anyone with a license above a trainee license conduct an inspection to meet the Freddie Mac inspection requirements?

A trainee may not be the sole inspector of a property. A licensed commercial appraiser may be the sole inspector of a property if they have multifamily appraising experience and are licensed in the state that the Subject property is located. The appraiser’s credentials should be included in the report including the license number.

How should appraisers handle not being provided with the Property Condition Report/Assessment and Phase I Environmental Site Assessment during their assignment? Is there a way to get this information before the report is due to avoid possible revisions?

Ask for these third-party reports up front. If the seller/servicer is unable to move up the due date for the other third-party reports, ask that a draft be provided to you as soon as possible. If you observe any deferred maintenance or potential environmental concerns during your inspection, inform the seller/servicer right away and state that these reports are now vital to your assignment. If you have any issues getting these reports, please contact the Freddie Mac Multifamily Appraisal Team and we will help facilitate. When identifying third-party reports in the appraisal, please remember to include the firm, effective date and version (draft or final).

What is the minimum number of units required to be inspected?

The following table is provided to better depict our current inspection requirements. Given the current emphasis on property condition concerns, we recommend inspecting more than the minimum required. The appraiser should use their judgement when selecting the quantity and type of units to inspect to produce a representative sample.

Residential Total Units	Residential Unit Inspection			Commercial Inspection Units
	Min.	Down	Vacant	
< 25	2	ALL	ALL, unless total residential units inspected exceeds 5	Representative sample
25 to 50	3	ALL	ALL, unless total residential units inspected exceeds 5	Representative sample
> 50	5	ALL	ALL, unless total residential units inspected exceeds 15	Representative sample

Is it possible to see a property in below average condition?

It is possible that a property may be in below average condition. Appraisers are one of many professionals inspecting the property, and it’s critical that the condition of the property is accurately reflected in the appraisal.

Where can I find the MBA Standard Ratings for property condition?

The MBA Standard Ratings Definitions can be found on pages 15 and 16 of [this resource](#). This is a great resource for reducing subjectivity in property condition ratings.

Insurance

How would Freddie Mac prefer an appraiser to handle dramatic (or impending or possible) large increases in insurance premiums?

It's recommended that the appraiser request the recent increases at renewal for other properties in the sponsor's portfolio, if available, as a starting point for estimating the insurance expense. Expense comparables obtained by the appraiser may also indicate recent trends in insurance premiums.

What would happen in a situation where no insurance is available? How should this be handled in the appraisal report?

It's very rare that there isn't some sort of option available, although we have seen private markets either refuse to write coverage or price it out of reach. This is currently only something we see in areas of high risk – mostly Florida. In these cases, property owners can typically secure coverage through state pools. These are less ideal than private coverage and often have their own limitations, but we do allow their use as the "last resort" option. Outside of that, certain aspects of coverage – like business income for flood – may not be available. This is generally going to vary from one location to another rather than a local or state-wide trend. If the appraiser is made aware that certain insurance coverage is not available, it should be clearly noted in the appraisal.

Is Freddie Mac/Fannie Mae/HUD doing anything or advocating for a solution for limited or no increases in insurance?

Freddie Mac engages directly with various groups, both internally and externally on insurance related topics. While we continue to work on finding a broader position on acceptable risk and risk transfer, we anticipate a large portion of those decisions will continue to be made at the deal level. Every deal is different, and two adjacent properties may have vastly different risk profiles. Markets being cyclical, we do not anticipate the increases we see as a "new normal". We left a soft market that ran nearly a decade and we're on the other side of the pendulum swing right now. Risk remains the same regardless of market conditions, so our overall position is not expected to shift dramatically under the current cycle.

Is there a suggested insurance premium increase that should be used in appraisals?

Nothing less than 20% would be recommended at the moment. South Atlantic and Gulf Coast regions should expect higher increases, but the 300% to 400% that some property owners have seen would not be prudent to apply across the board.

Does Freddie Mac require a breakdown of Insurable Value and Effective Gross Income by building if the Subject site is located in a flood plain? If so, what is the official requirement?

This is not directly a part of our requirements, however; our requirements recognize that not all buildings at a property will necessarily require flood coverage and are written with the expectation that coverage address building-specific values. The inclusion of building-level values may be beneficial for any buildings that do require the coverage.

Fair Lending

Is Freddie Mac manually checking every appraisal report or auditing a random selection of reports for the Fair Lending searches?

Freddie Mac audits a random sample of appraisals for Fair Lending searches. When a Word of Concern or subjective terminology is found, the report is reviewed for context. If we conclude that the Word of Concern or subjective terminology may be violative of fair lending laws, we will notify the appraiser first with a warning letter. If the violation is severe or is a re-occurrence, the appraiser may be placed on the Restricted Vendor List for Freddie Mac multifamily transactions.

What can appraisal firms do to prevent receiving a warning letter and potentially being placed on the Restricted Vendor List due to Fair Lending violations?

To avoid a potential Fair Lending violation, it's suggested that all references to prohibited factors or use of subjective terminology on its own (without market data support) be removed from the appraisal templates. It's also suggested that location adjustments are well supported and quantified.

Is third-party information in an appraisal subject to Fair Lending requirements?

All information included in the appraisal and addenda is subject to Fair Lending requirements and review. All information in the appraisal is assumed to be considered by the appraiser. If the information is not considered or relevant, then it should be excluded from the appraisal.

Are there parts of an appraisal that receive more attention in the Contextual Text Mining Procedure for Appraisals process?

All parts of an appraisal are contextually reviewed in the same manner. In Regional, Local, Neighborhood and Market Analyses, appraisers should be careful when copy and pasting information from other sources to ensure that references to prohibited factors or subjective terminology are not included.

Do crime statistics and conclusions fall under Fair Lending purview?

Subjective conclusions about crime are not acceptable in appraisals. For some, the reporting of crime is synonymous with certain prohibited factors. If crime statistics or conclusions are reported for only some geographic areas, this is an example of disparate treatment. Before crime statistics or conclusions are included in an appraisal, the following should be considered:

- Do all appraisals in my company treat crime the same way?
- Are the crime statistics calculated with the same methodology? The method of reporting and measuring of crime should be consistent throughout all of your appraisals, and to the extent there may be slight variations, the appraisal must note what these are and that no alternative source was available.
- Would a potential buyer of the Subject property consider crime and would it have an impact on the purchase price?
- Is crime specifically impacting rents or occupancy at the Subject property or in the surrounding area?

If the answer is “no” to any of these questions, then crime may not be a relevant characteristic to include in the appraisal.

Targeted Affordable Housing

For Forward transactions, can we use LIHTC rent projections if the next years’ rents have not been released yet?

This should not be completed for every forward appraisal and must be requested by the seller/servicer. If requested, the appraisal must note as such, and projections can be based on a leading TAH market study provider that uses HUD methodology to arrive at projected rents. The appraiser should consider whether those future rents are achievable by providing analysis of the current achievable restricted and market rents. A scenario using current LIHTC rents must also be included in the appraisal.

What is required in regard to using RCS rents for a HAP subsidized property? If the new RCS indicates rents that are higher than we can support, but it is expected to be or has been approved for implementation, can we use those with an extraordinary assumption that they are approved? Or do we have to write those down to what we can support using our chosen rent comparables and adjustments?

We are looking for the appraiser to independently develop what the rents should be at the property based on their own comparables and analysis of the market. The appraiser should not simply conclude to the rents in the RCS if they are not supported based on their own analysis. We will consider the appraiser’s rent conclusions and the approved HAP contract rents to complete our underwriting. When the approved HAP rents differ from the appraiser’s rent conclusions, the appraiser should provide analysis on the variance.

Underwriting guidance was released in February 2023 stating that “voucher income exceeding LIHTC rents may be included in underwritten income even if the LIHTC Regulatory Agreement does not expressly permit the property owner to retail excess Section 8 income.” What support is required to include this voucher income in our appraisal Potential Gross Income?

Freddie Mac Underwriting is looking for the appraiser’s opinion on this topic. Any inclusion is at their discretion, and they should provide an explanation for the inclusion or exclusion. When vouchers are present at the property, the appraisal should include a discussion about vouchers at the property and in the competitive market. Freddie Mac does not consider Section 8 tenant voucher overhang to market rents.

Other

Is the Freddie Mac Multifamily Appraisal Team planning to resume training anytime soon?

The Freddie Mac Multifamily Appraisal Team is planning to resume training in 2024. Our trainings will be recorded and published on our [Appraisals webpage](#).

For smaller appraisal firms with limited access to data, would Freddie Mac ever consider providing public data?

Any data or information provided by an appraisal firm to Freddie Mac is considered private, including data that may be considered “public.” Appraisers have an expectation that Freddie Mac will not share this information.

What policies are in place or efforts made by Freddie Mac to ensure that appraisal contracts are being fairly awarded to a diverse group of qualified businesses, including small, women, disabled veteran, and minority-owned businesses?

Appraisal reports are considered fourth-party reports, as Freddie Mac does not engage the appraiser for transactions in underwriting. It is Freddie Mac’s expectation that seller/servicer comply with their own requirements for retaining diverse suppliers, which is a requirement to qualify as an approved seller. Further, there are specific provisions in the Guide that require seller/servicers to practice principles of business that do not discriminate. On the servicing side of the business, Freddie Mac may retain appraisers to appraise certain properties. This process must comply with Freddie Mac’s own internal policies around engaging diverse suppliers and practicing principles of equal employment and non-discrimination in our own business activities.

Is the 50-page limit for SBL appraisals still in effect?

The 50-page limit for SBL appraisals is still in effect, however, there is a waiver for this requirement that must be completed by the seller/servicer. Scenarios where the waiver is applicable include: a property is located in a tertiary market, has substantial repairs, there are environmental issues reported, or another scenario that requires additional discussion by the appraiser. If you must exceed the 50-page limit in order to provide credible assignment results, please reach out to the seller/servicer and request a Form 6011, Waiver of the Page Limit for SBL and TAHX Appraisals per Guide Chapter 60.11.

Are there any specific expense categories for which the underwriters have to use the appraiser’s projections?

Freddie Mac underwriters do not rely solely on the appraiser’s projections for any expense category in their underwriting process. The appraisal serves as a datapoint in the underwriter’s analysis, however, if an expense line item does not appear to be well supported in an appraisal, the underwriter will rely on other datapoints to draw their conclusions.

What is the best way to get feedback/grades on completed assignments so that we can make changes to templates and formats to ensure we are covering all requirements?

Our current review process includes compiling all of the reviewed reports by appraisal firm and sending them to the national practice lead in January of each year. We recommend that these reports be distributed to the signing appraisers who completed the reports. The best way to ensure that your reports meet Freddie Mac requirements is to thoroughly review the Guide and our Appraisal Checklist on the [Appraisals webpage](#). The checklist may also serve as a great starting point for updating your templates.

What is Freddie Mac’s requirement for retail rent support?

A full rental analysis is required for nonresidential leases, including a minimum of three rent comparables for each type of tenant and/or unit type (i.e., leased basement space). Rent comparables must include the elements outlined in Guide Chapter 60.19. Adjustment grids with explanations of the adjustments are recommended. The appraiser’s Income Approach must separate residential and nonresidential income, vacancy and collection loss, operating expenses and replacement reserves. Separate values for the commercial space and residential space are not required but must be provided if the commercial space can be marketed and sold separately from the residential space.

Can Freddie Mac provide more detailed guidance on the current listing or pending sale requirement? It’s unclear whether this data point needs to be included as a sale in the adjustment grid and we have concerns with confidentiality.

This FAQ document has been distributed to the seller/servicers, has been posted externally on our [Appraisals webpage](#) and serves as additional guidance on this topic. In most cases, the listing or pending sale should be included as a comparable sale in the Sales Comparison Approach. In the event the appraiser has confidentiality concerns, the property should be used as a comparable sale and be described in detail, however, certain fields can be left “confidential” (i.e., property name, address, buyer and seller). If the pending sale or listing provided is the best datapoint available in the market, but is still not considered a direct comparable, the sale should be described in detail and an explanation for why it was not included as comparable in the grid should be adequately discussed.