

Multifamily Appraisals Update Call

Frequently Asked Questions (FAQs)

December 2024

On November 6, 2024, the Freddie Mac Multifamily Appraisals team hosted a virtual call covering topics like the Appraiser Independence Requirements (AIR), Fair Lending updates and an overview of the [Multifamily Underwriting Appraisal Checklist](#) (UAC). This document includes questions asked during the event from Optigo® lenders and appraisers.

Multifamily Underwriting Appraisal Checklist (UAC)

How frequently is the UAC updated?

Updates to the UAC will be contingent upon the quality of the appraisals being submitted to Freddie Mac and changes in appraisal quality issue trends. Optigo lenders will be notified ahead of time via email prior to any changes to the UAC.

As an appraiser, it has been requested by my client (the lender) to provide a completed UAC. Should I include a completed UAC in my appraisal submission? As a lender, Freddie Mac has requested that we submit a completed UAC with our underwriting package. Should we include a completed UAC with the underwriting package? Why or why not?

No, a completed UAC should not be included in the appraisal or the underwriting package. Freddie Mac underwriters are responsible for completing their own critical review of the appraisal, including, but not limited to, the UAC. The UAC will remain available on our Appraisals [webpage](#) for transparency into the areas of an appraisal frequently found to be deficient by Freddie Mac.

If there are no listings or pending sales in the market that are similar to the subject, should the appraiser expand their search parameters to find any in a similar market, or should the appraiser note in the report that there are no listings or pending sales comparable to the subject?

The appraiser must use their own judgment to determine what is considered “comparable” to the subject property. If the most probable buyer would consider a property in a different market as a reasonable substitute for the subject property, then the geographic search parameters should be expanded. If there are no reasonable substitutes for the subject, then the appraisal should include a detailed description of what the search parameters were and that there were no listings or pending sales that met the search criteria.

Does the listing or pending sale need to be included in the adjustment grid, or can it be presented and analyzed separately within the report?

If sufficient information is available (e.g., asking price), the listing or pending sale should be included within the adjustment grid if it is considered comparable and a reasonable substitute to the subject property. If insufficient information is available for inclusion in the Sales Comparison Approach, the available information should be described and analyzed narratively in the appraisal report.

Do all the capitalization rates extracted from the sales comparables need to be based on actual or pro forma net operating income (NOI) or can there be a mix of different capitalization rate types?

The basis of the capitalization rates may differ depending on the data the appraiser is able to verify; however, it is critical that the subject’s capitalization rate conclusion is adequately supported by like-kind data. For example, if four out of six comparables are presented on a pro forma basis, then the analysis

should place emphasis on the pro forma capitalization rates if the subject's analysis is also completed on a pro forma basis. The derivation of a subject property capitalization rate conclusion by averaging capitalization rates, whether actual or proforma, is inappropriate appraisal methodology.

Fair Lending

Did Freddie Mac Multifamily eliminate the appraisal “Words of Concern” list?

Freddie Mac Multifamily continues to conduct text searches, however the “Words of Concern” list was removed. This action was taken to be consistent with other Freddie Mac divisions. Due to differences in property type and documents being searched, the differences among the respective division's word search lists were causing confusion externally.

How can an appraiser discuss the marketability of specialty property types such as student housing, seniors housing or affordable housing without violating Fair Lending guidelines?

For specialty housing with legal protections/restrictions in place or with unique characteristics/programming for age, income, gender, familial status or disabilities, discussing these characteristics is necessary and would not be considered an issue.

Would the discussion of Section 8 housing vouchers or contracts, and their effects on rent and occupancy, trigger a Fair Lending warning regarding the prohibited factor of “receipt of income derived from any public assistance program”?

No, the discussion of Section 8 vouchers or contracts and the impact on rent and occupancy is appropriate. Sections 60.24, 60.25, 60.26, 60.28 and 60.30 of the Freddie Mac [Multifamily Seller/Services Guide](#) (Guide) require restricted and unrestricted valuations that may require the consideration of these property characteristics and their impact. Subjective statements about the use of Section 8 vouchers or contracts and the desirability of the property/neighborhood, or including generalizations about Section 8 renters, may create Fair Lending risk.

Is the term "young professional" a prohibited phrase relating to age?

Statements that an area or a specific property is the best or very good for one particular group (such as “young professionals”) should generally be avoided as they have the potential to introduce bias into the report. In this case, the bias would be against older individuals, such as seniors.

Can an appraiser discuss what factors are driving market value of a property or neighborhood (i.e., desirability of a school district) without violating Fair Lending guidelines?

Yes, as long as the characteristics and conclusions about the area or property are supported with specific facts, data or market evidence and objective analysis. Unsupported and subjective statements or conclusions are not acceptable.

Appraiser Independence Requirements (AIR)

When Optigo lenders or Freddie Mac request revisions to appraisals that result in changes to NOI, capitalization rates and/or value, is there a violation of the AIR?

It depends. Asking an appraiser to correct a mathematical error in an appraisal or presenting the appraiser with additional data for consideration is not a violation of the AIR. However, telling the appraiser to make changes to the appraisal without providing the basis for said requests is undue influence and inconsistent with the AIR in [section 60.2](#) of the Guide. The appraisal report is an independent, impartial and objective analysis of the subject property and should not be expected to mirror underwriting analyses.

Are AIR violated when an appraiser provides an opinion of the reasonableness of specific expenses if capitalization rate and value are not discussed?

If the appraiser is asked to exercise their own judgment regarding the reasonableness of expenses, then the appraiser is providing a valuation service as defined in USPAP and is bound by USPAP's requirements associated with valuation services (see Advisory Opinion 21 in USPAP Guidance and Reference Manual). To avoid the appearance of predetermined conclusions and undue influence, it is recommended that the appraiser allow the requestor to utilize their own judgment regarding the relevance of any general market data provided by the appraiser.

Can an appraisal that was ordered by a mortgage broker be used for a subsequent assignment prepared for Freddie Mac?

Per [section 60.1](#) of the Guide, the appraisal must be ordered by the Optigo lender and must be completed by and signed by an appraiser approved by the Optigo lender. Freddie Mac will not accept Appraisals ordered by and/or prepared for anyone other than the Optigo lender.

Other

Does Freddie Mac prefer Optigo lenders engage national appraisal firms?

No, Freddie Mac does not have a preference as it relates to the engagement of a national appraisal firm versus a local/boutique appraisal firm. Additionally, Freddie Mac does not select or approve specific appraisers for Freddie Mac's Multifamily programs or products. The selection process should be based on the qualifications of the individual performing the work, not the firm that the appraiser works for. To mitigate valuation risk associated with individual appraiser and/or appraisal firm concentrations, Freddie Mac encourages Optigo lenders to continually seek out the services of qualified appraisal professionals throughout the United States.

If other third-party reports are not made final until after they are submitted to and reviewed by Freddie Mac, should the Optigo lender provide the appraiser with a draft version of the reports? Can the Optigo lender provide a summary of the reports instead of the full copies?

Yes, if the third-party reports are not finalized, draft versions should be provided to the appraiser to incorporate in their analysis and the appraisal should note the date of the reports and whether they were final or draft versions. The appraiser should be provided with the full third-party reports, rather than a

summary. There may be pertinent information within third-party reports that the appraiser can rely upon (i.e., number of parking spaces, zoning compliance, mechanical or structural details). The appraiser should also be able to provide their own opinion of materiality of any findings in the other reports.

Would Freddie Mac ever consider removing the 50-page limit on Small Balance Loan (SBL) appraisals?

Freddie Mac is not removing the 50-page limit on SBL appraisals; however, section 60.11 of the Guide includes [Form 6011](#): Waiver of Page Limit for SBL and TAH Appraisals. This form may be completed by the Optigo lender for any appraisal that requires additional analysis in order to produce credible assignment results. If the appraiser needs to exceed the 50-page limit for a SBL appraisal, notify the Optigo lender that a Form 6011 will be needed.

When are appraisals reviewed by the Multifamily Appraisal team? If the Multifamily Appraisal team reviews an appraisal, will the Optigo lender be notified?

The Multifamily Appraisal team serves as a resource to the underwriting teams and reviews appraisals on a regular basis. The Multifamily Appraisal team also answers specific appraisal-related inquiries from underwriters daily. Freddie Mac Multifamily is not required to notify Optigo lenders of the Appraisal team's involvement; however, the appraisal team may notify the Optigo lender if material deficiencies are observed in an appraisal provided to Freddie Mac.

Do full copies of the regulatory agreements need to be included in the addenda of the appraisal?

Full copies of regulatory agreements, Housing Assistance Payment contracts, ground leases, purchase contracts, commercial leases, shared access agreements, easements, etc., must be provided to the appraiser and included in the addenda of the appraisal report. This serves as evidence that the appraiser received and reviewed the source documentation rather than relying solely on summarizations or interpretations from other sources.

As an appraiser, when might I be asked to include quantitative adjustments or more support for certain adjustments in the Sales Comparison Approach?

An underwriter may request additional support for adjustments in the Sales Comparison Approach, including location and property condition adjustments. All adjustments must be adequately discussed and supported. Simply stating that a comparable is in a "superior" or "inferior" location to the subject is not acceptable. Similarly, stating that one comparable is located in an area with "superior" or "inferior" demographics is not acceptable. The report should adequately explain why one location is considered superior or inferior to the subject property and provide specific property characteristic details describing any differences in property condition. Location adjustments can be demonstrated quantitatively by illustrating distance to local transit, major employers, hospitals (seniors housing), college campus (student housing), etc. Additional quantitative metrics like average market rents and home prices in the various submarkets or within a certain radius can be analyzed.

Does the Optigo lender need to comply with Freddie Mac's requests for additional support or consideration of revisions to the appraisal? What if there is a difference of opinion on whether a certain area of the appraisal is considered adequately supported?

Yes, clarification requests from Freddie Mac underwriters should be relayed to the appraisers for consideration. There must be sufficient market support, analyses and rationale for all the opinions and

conclusions in the appraisal report. The appraisal reports provided to Freddie Mac must contain sufficient information to enable Freddie Mac's underwriters (intended users) to understand the report properly. It is critical that appraisers are independent, impartial and objective throughout the appraisal process and requests for clarifications should always be supported by objective data. To be clear, regardless of the party making the request, the appraiser should be asked to consider requests for additional support or revisions, not compelled or required to make revisions. If there is a difference of opinion between Freddie Mac Underwriting and the Optigo lender on aspects of the appraisal report, we encourage and will engage in an open dialogue to consider the lender's perspective.

Fraud

As an appraiser or an Optigo lender, how can I report suspicious or fraudulent activity to Freddie Mac?

All suspicious activity or suspected fraud can be reported via email at:
mf_mortgage_fraud_reporting@freddiemac.com.