



## **Small Balance Loan (SBL) Appraisals: 50 pages or less**

**This is a Freddie Mac requirement as of January 1, 2019**

Philosophy – 50 pages or less, plus the Addenda:

- Shorter reports with less narrative will be easier for underwriters to read, comprehend, and pick out the portions that matter most to their underwriting and to the loan transaction. We read every appraisal and use the appraiser's discussion and conclusions in our underwriting analyses.
- Shorter reports with less narrative will result in better control of the quality for the appraiser, for the Seller/Servicer, and for Freddie Mac's underwriters.
- Do not confuse brevity with short circuiting a supported analysis and property/market descriptions; Freddie Mac requires a USPAP-compliant credible opinion of market value even in this abbreviated format.
- We want tables, charts, bullet points, and succinct narrative explanation of assumptions and conclusions. Windy paragraphs and boilerplate discussions are not needed nor wanted.
- No need to restate or reiterate the content of a table or chart in each section, but the appraiser should adequately describe the purpose of the data, the analysis, and the rationale for the appraiser's conclusions.
- Do not skimp on the explanation just to hit the 50-page recommended report size.
- We are not proscribing a form or format, but want an emphasis on ease-of-use and property/submarket-specific content.
- Form 71A (Appraisal Report: Residential Income Property) is being retired.
- The intended user is an underwriter, not an appraiser/reviewer, so please write accordingly with less appraisal jargon and more transparency.

# SBL Appraisals

## Suggestions for content, structure, focus and discussion

Section	Description
Letter of Transmittal	<p>A Letter of Transmittal, if included in the appraisal report, should probably only convey the report to the client. A lengthy Letter of Transmittal is probably not necessary since it mostly only recaps items that are typically found in the Executive Summary anyway. <i>The Letter is just a letter.</i></p> <p>Required signatures/attestation are on the Appraiser’s Certification.</p>
Executive Summary	<p>The Executive Summary <i>is just a summary</i> and should probably be one page or less. It should highlight the important issues, data, discussions, and conclusions, not all of them. A well-designed Executive Summary will tell the reader what to expect in the appraiser’s valuation discussion.</p> <p>A discussion of the quality and strength of the data would be appreciated, where applicable, so Freddie Mac’s users can evaluate the strengths and weakness of the property and its local market.</p> <p>The Executive Summary would be a good place for the appraiser to include a SWOT analysis (Strengths, Weaknesses, Opportunities, and Threats). If the appraiser identifies weaknesses or threats in the local submarket or at the property, the appraiser should discuss in the Reconciliation section of the report how those were considered in the valuation analysis.</p>
Regional and submarket analysis	<p>A lengthy MSA market description is not necessary for SBL appraisals unless there is something unusual or unique that could potentially impact the subject’s value. This section is probably only a couple/few pages.</p> <p>The regional description should focus on those items that would potentially affect multifamily property and general demographic or economic characteristics that are not focused on their impact on the subject should probably be eliminated.</p> <p>Suggested areas of the appraiser’s submarket discussion:</p> <ul style="list-style-type: none"> <li>• How is the subject’s submarket defined?</li> <li>• How does the subject property fit into the submarket?</li> <li>• Major land uses in the submarket</li> <li>• Major employers</li> <li>• Distances (miles or time) to retail and schools</li> <li>• School district information</li> <li>• Availability and proximity of public transportation</li> <li>• Favorable <u>and</u> unfavorable market and submarket attributes/trends/issues</li> <li>• Demonstration of trends is more important than static data             <ul style="list-style-type: none"> <li>– Employment trends</li> <li>– Population trends</li> <li>– Household income trends</li> </ul> </li> <li>• Vacancy/Occupancy comparables and distance to the subject (a map would be suggested)</li> </ul>

Section	Description
Inspection	<p>A paragraph or bullet point section called something like “Inspection Observations” where the appraiser specifically discusses the scope of the inspection including, but not limited to a chart with the units inspected, and if they were each occupied, vacant, down, and/or rent-ready.</p> <p>The Inspection Observations should include property condition issues and environmental observations. Saying that the appraiser is not qualified to detect such issues is not appropriate; we are relying on the appraiser’s professional expertise to provide a presence on-the-ground.</p> <p>Reference and summarize the Freddie Mac 1104 property inspection form if it has been received as part of the appraisal engagement from your client.</p> <p>A discussion of favorable <u>and</u> unfavorable property attributes would be appropriate.</p>
Easements	<p>Include a survey, site plan, or plat from the local jurisdiction (if available) to demonstrate the existence or non-existence of easements or other site issues, and comment on their effect on market value.</p> <p>If a survey or plat is unavailable, state in the report the appraiser’s effort to obtain the survey or plat including contact with the client and/or search of online county records.</p>
Property taxes	<ul style="list-style-type: none"> <li>• Description of the local assessment process and the next date of revaluation</li> <li>• Are the tax comparables appropriate? (Why not use the rental comparables as tax comparables, too?)</li> <li>• Is the tax assessment value similar to the appraiser’s value? If not, why not?</li> <li>• What is the risk of near-term reassessment at the appraiser’s value (within a year or two±)</li> </ul>
Zoning	<p>Focus on:</p> <ul style="list-style-type: none"> <li>• Is the subject a permitted use?</li> <li>• Permitted density vs. actual density and the effect on market value, if any</li> <li>• Required parking vs. actual parking and the effect on market value, if any</li> <li>• Regulations/requirements on rebuildability in the event of a casualty loss and the effect on market value, if any</li> <li>• If the appraiser concludes that the subject property is a non-conforming use (either legally non-conforming or illegal use), analyze and describe the effect on market value, if any.</li> </ul>
Highest and Best Use	<p>Can be in chart form with a summary/concluding paragraph(s) unless if the Highest and Best Use (either as Vacant or As Improved) is for a use other than the existing multifamily use.</p>

Section	Description
Sales Comparison Approach	<p>Do not rehash the material already in the sales adjustment grid.</p> <ul style="list-style-type: none"> <li>Focus on explaining the adjustments and providing supporting market data</li> </ul> <p>There should be consistency between the Sales Comparison Approach and the Income Approach for the sales emphasized in the capitalization rate development.</p>
Income Approach	<p>Do not rehash the material already in the rent adjustment grid.</p> <ul style="list-style-type: none"> <li>Focus on explaining the adjustments and providing supporting market data</li> </ul> <p>Provide market support for the operating expenses.</p> <p>The development of operating expense estimates should be in tabular form, where practicable. As with the sales adjustment grid, it is not necessary to narratively rehash information already present in a grid or a table so the appraiser should focus on text adequately supporting the rational, analysis, and conclusions for the expense categories.</p> <p>The appraiser’s estimates for replacement reserves and management fees should be developed with market support.</p> <p>Capitalization rate: Primary analytical support should be from comparable sales and local surveys of market participants (national surveys or generic Band of Investment/DCR calculations are typically not germane to these types of properties).</p> <p>There should be consistency between the Sales Comparison Approach and the Income Approach for the sales emphasized in the capitalization rate development.</p> <p>Gross Income Multiplier analyses are encouraged as a substitute for a Direct Capitalization Analysis in the Income Approach for properties with less than 30 units.</p>
<p>Suggested Addenda materials (Not necessarily in this order) <i>Note: Please reference these materials in the body of the appraisal report, where appropriate, so the reader can find them as needed.</i></p>	<p>Photos (please label the photos and tell the reader the date they were taken, or their source if copied from the Internet)</p> <p>Definitions or stock/boiler plate language</p> <p>Comparable sales outlines</p> <p>Comparable rental outlines</p> <p>Rent roll</p> <p>Historical financials</p> <p>Floor plans</p> <p>Site plans / Plat / Survey</p> <p>Assumptions and Limiting Conditions</p> <p>Appraiser’s Certification / Signature</p> <p>Qualifications of the appraiser and state Certification certificate</p> <p>Engagement letter</p> <p>Insurable value</p>

Section	Description
Suggested Exhibits	<p><u>Maps:</u></p> <ul style="list-style-type: none"> <li>• Location in the metropolitan area</li> <li>• Location in the submarket</li> <li>• Street map of the immediate area</li> <li>• Site plan or plat showing easements, if available from the property owner or from public records</li> <li>• Zoning</li> <li>• Tax map</li> <li>• Comparable sales</li> <li>• Comparable rents</li> </ul> <p>Please try to use map software that generates a readable and useful map (labels, data point ID's and symbols, streets, contrast, etc., ) if the reader prints in black and white.</p> <p><u>Photos:</u></p> <ul style="list-style-type: none"> <li>• Typical exterior of the subject's building(s)</li> <li>• Street view</li> <li>• Typical kitchen(s)</li> <li>• Typical bathroom(s)</li> <li>• Oblique aerial from Bing.com or another source</li> <li>• Photo of each of the comparable sales</li> <li>• Photo of each of the comparable rents</li> <li>• Note: The subject or comparables' photos should be representative of the real estate, not of the exterior street signage only.</li> </ul>
General	<p>If available from the Seller/Service and/or borrower, the appraiser should report the subject's prospective loan term.</p> <p>If available from the Seller/Service and/or borrower, the appraiser should discuss the terms and conditions of any recent sale, sales agreement, or contract of sale. If available, it would be important to know how the property was marketed, how long it was marketed, and the number and types of sales offers received by the owner.</p> <p>All the required USPAP elements must be incorporated into the appraisal report. <b><i>These reports must be USPAP compliant.</i></b></p>