

Mastering Appraisal Standards: Language, Boundaries, and Market Trends



Presented by Bill Waltenbaugh & Steve Sussman

Introductions



Steve Sussman
Chief Business Development
Officer
Moderator



Bill Waltenbaugh
Chief Appraiser
Presenter

Poll Question

What role do you play in the appraisal process?

- A) Lender
- B) Appraiser
- C) Other

Agenda

In today's meeting, we will explore the following key learning objectives.

- Avoiding prohibited language in appraisals..
- Defining Neighborhoods and Market Areas.
- Mastering market trend analysis and time/market change adjustments.
- Questions?

Avoiding Prohibited Language in Appraisals.

The Fannie Mae Selling Guide clearly states that prohibited language has no place in an appraisal report.

So, what is Prohibited Language?

Fannie Mae does not provide a formal standalone definition for "prohibited language" in its Selling Guide. However, its policies and guidelines outline the concept by specifying the types of unacceptable language in appraisal reports.

Let's take a closer look at these concepts.



Avoiding Prohibited Language in Appraisals.

Fannie Mae addresses prohibited language primarily through its Unacceptable Appraisal Practices policy ([Selling Guide B4-1.1-04](#)), where it emphasizes that **all** language in appraisal reports must be:

- Objective.
- Based on market data.
- Free from references or implications related to protected classes or subjective opinions.



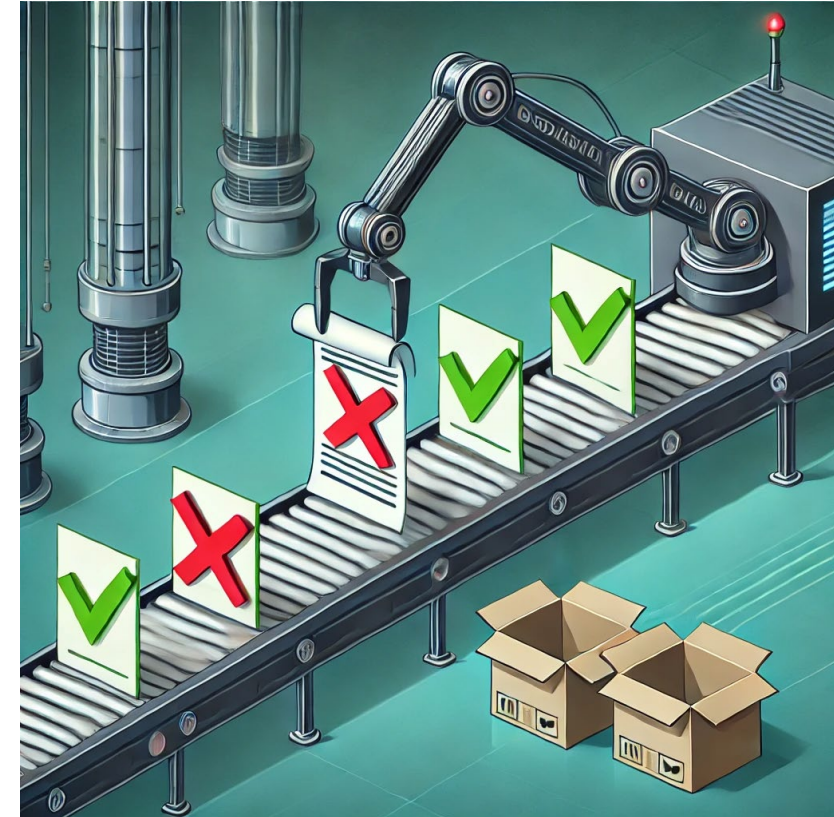
Avoiding Prohibited Language in Appraisals.

Three new messages in CU

Prohibited Language Messages	
8001	Potential references to protected class and/or other prohibited language found. Phrase: <Phrase> Location: <Location>. Ensure any prohibited language is excluded and resubmit the appraisal report to comply with the Fannie Mae Selling Guide policy for Unacceptable Appraisal Practices. Compliance failure will result in reporting to an enforcement agency.
8002	Potential subjective phrases and/or terminology found. Phrase: <Phrase> Location: <Location>. Ensure any subjective language is excluded and verify the appraisal report complies with the Fannie Mae Selling Guide policy for Unacceptable Appraisal Practices.
8003	Potential use of terminology from which protected class or other demographic data may be inferred. Phrase: <Phrase> Location: <Location>. Ensure any prohibited language is excluded and verify the appraisal report complies with the Fannie Mae Selling Guide policy for Unacceptable Appraisal Practices.

Avoiding Prohibited Language in Appraisals.

1. Message 8001 addresses explicit references to protected classes or prohibited terms and has the highest compliance risk due to possible enforcement reporting.
2. Message 8002 focuses on subjective language lacking measurable or factual support.
3. Message 8003 targets indirect or inferred demographic references that might not explicitly mention a protected class but imply it through contextual language.



Avoiding Prohibited Language in Appraisals.

Message 8001: Protected Class References

Focus: Identifies language that directly references protected classes as defined by the Fair Housing Act.

Example: References to race, religion, ethnicity, or familial status of individuals or neighborhoods, including explicit mentions such as "predominantly Hispanic or Jewish neighborhood."

Action Required: Remove the prohibited language and ensure compliance with Fannie Mae's guidelines.



Avoiding Prohibited Language in Appraisals.

Message 8002: Subjective Phrases

Focus: Flags subjective or opinion-based terms that lack market evidence or are inherently vague.

Example: Phrases like "pride of ownership," "good neighborhood," or "desirable location." These terms introduce bias and are not measurable by objective market data.

Action Required: Exclude subjective language and replace it with factual, data-supported descriptions.

Avoiding Prohibited Language in Appraisals.

Message 8003: Inferred Demographic Data

Focus: Identifies language that could infer demographic or socio-economic characteristics while not explicitly referencing protected classes.

Example: Terms or comments that suggest or imply the demographics of a neighborhood or property occupants, such as "blue-collar neighborhood" or "working-class area."

Action Required: Remove any language that could be interpreted as referencing demographic characteristics.



Avoiding Prohibited Language in Appraisals.



Why These Practices are Prohibited:

- They violate Fair Housing Laws and Fannie Mae's Selling Guide policies by introducing bias, discrimination, or subjective opinions.
- They lead to non-compliance with appraisal standards, such as the Uniform Standards of Professional Appraisal Practice (USPAP), which emphasize impartiality and objectivity.

Avoiding Prohibited Language in Appraisals.

General Rule

Report facts over feelings.

Let the market tell the story.



Describe the property,
not the people

Poll Question

Which concept is more important to the appraisal process?

- A) Market Area
- B) Neighborhood
- C) Both

Defining Neighborhoods and Market Areas.

New Standardized Definitions

Neighborhood: A congruous group of complementary land uses.

Market Area: The geographic region, for a subject property, from which most demand comes and in which most of the competition is located.

Defining Neighborhoods and Market Areas.

Breaking it down further

Neighborhood: Think of this as a group of houses or buildings near each other that are used in ways that work well together.

They are defined by geographic and physical boundaries that share characteristics like Zoning, Property types (e.g., single-family homes), Amenities (e.g., parks, schools), and Market trends specific to that area.

Neighborhoods are a fixed geographic unit and don't change from one assignment to another.



Defining Neighborhoods and Market Areas.

Market Area: The market area is a broader concept focusing on buyers and competition for a specific property.

It's the region where most potential buyers for the home would come from and where other homes that compete with it are located.

Market Areas can change from assignment to assignment because it is an assignment-specific concept.



Defining Neighborhoods and Market Areas.

What makes these concepts and definitions important?

- They are key elements in comparable selection.

What is the Definition of a comparable sale?

- Per the Fannie Mae Selling Guide (B4-1.3-08, Comparable Sales), comparable sales should be competitive and “appeal to the same market participants who would also consider purchasing the subject property.”
- In other words, a comparable property is one the typical buyer of the subject would also consider when in the market for a home – a reasonable alternative.

Defining Neighborhoods and Market Areas.

How the Neighborhood influences the selection of comparable sales.

- The Neighborhood is often a starting point for selecting comparables, reflecting immediate location influences like zoning, proximity to amenities, and local trends.
- However, these boundaries are fixed and may not fully capture the property's competitive landscape, especially if buyer preferences or property characteristics extend beyond the neighborhood.

Defining Neighborhoods and Market Areas.

How the Market Area influences the selection of comparable sales.

- The Market Area, as it defines the geographic region where most buyers and competing properties exist.
- While the Neighborhood provides valuable context and is a critical starting point, the market area is essential for ensuring that comparable sales reflect the competitive alternatives available to the same pool of buyers.

Defining Neighborhoods and Market Areas.

Application in Comparable Selection

1. Start with the Neighborhood:

- When possible, use comparable sales from the same neighborhood as they typically reflect similar locational characteristics and influences.

2. Expand to Market Area When Needed:

- If neighborhood sales are limited or unsuitable (e.g., unique property features, low sales activity), use comparable sales from the broader market area.

3. Provide Justification:

- Clearly explain why sales outside the neighborhood were selected and demonstrate how these comparables appeal to the same buyers. Be sure to address any differences.



Defining Neighborhoods and Market Areas.

Example: Unique Hillside Ocean View Property

Property Description:

- Located on a secluded hillside overlooking the ocean in a small coastal community.
- Offers spectacular, unobstructed ocean views.
- Is custom-built with high-end materials and finishes.
- The lot is larger than most properties in the neighborhood.

Neighborhood Characteristics:

- Primarily mid-range homes without ocean views.
- Limited recent sales of similar view properties.



Defining Neighborhoods and Market Areas.

Expanding the Market Area

Market Area Selection:

- Broaden the search to nearby coastal towns or hillside communities with similar ocean-view homes.
- Focus on areas where buyers seeking high-end, ocean-view properties might also consider purchasing.

Defining Neighborhoods and Market Areas.

Sample Commentary:

The subject property's unique hillside ocean view and custom construction make it unlike other homes in the immediate neighborhood, primarily consisting of standard mid-range homes without views. The market area was expanded to include coastal hillside communities where buyers seeking high-end ocean-view homes are likely to purchase. The selected comparables share key features with the subject property, such as unobstructed ocean views, custom construction, and similar lot sizes, making them competitive in the same buyer pool. Location adjustments were applied to account for differences in proximity to the beach and variations in local market demand between the subject neighborhood and the expanded market area.

Defining Neighborhoods and Market Areas.

General Rule

Start local, think broader



Match buyers, not just borders

Poll Question

What method do you use to support your market change/time adjustments?

- A) Housing Price Index (HPI).
- B) Statistical analysis or modeling.
- C) Paired sales.
- C) I don't make time adjustments.

Mastering market trend analysis and time adjustments.

Market Trend and Time Adjustment Requirements

- Fannie Mae and Freddie Mac have introduced updates to the Market Area analysis requirements in appraisal reports to ensure consistency and transparency.

Mastering market trend analysis and time adjustments.

Key Updates

- **Minimum 12-Month Market Trend Analysis:** Establishing a consistent timeframe for deriving trends.
- **Differentiation in Market Trend and Individual Adjustments:** Highlighting that overall trends may differ from specific comparable sale adjustments.
- **Illustration of Methodology:** Requirement to show how time adjustments for changes in market conditions are calculated.
- **Effective: March 1, 2025. Immediate adoption is encouraged.**

Mastering market trend analysis and time adjustments.

Section B4-1.1-04 of the Fannie Mae Selling Guide lists unacceptable appraisal practices.

The following is one of the items identified in this list.,

- Failure to make market-derived adjustments, including time adjustments, when they are clearly indicated.

Mastering market trend analysis and time adjustments.

Top Defects Identified by Fannie Mae

Two of the top three defects identified by Fannie Mae are:

1. Inadequate Comparable Adjustment(s)
2. Failure to Adjust Comparables

Failure to adjust or make appropriate adjustments may result in your report being referred to State regulatory authorities.

Mastering market trend analysis and time adjustments.

CU Message Enhancements

Time adjustment message – A new time adjustment advisory message relying on the latest available Fannie Mae internal home price indices will be introduced in the Adjustment messages category.

These new messages will also be disseminated to downstream systems including Desktop Underwriter[®] and will display in the Uniform Collateral Data Portal[®] Submission Summary Report.

Message ID	Message Text
Adjustment Messages	
650	The 'Date of Sale' adjustment is materially different than the price change indicated by Fannie Mae's Home Price Index. Assess the materiality of the adjustment rate based on the contract date of the comparable sale(s) to the effective date of the appraisal. If material, validate the appraiser's derivation of the adjustment rate.

Mastering market trend analysis and time adjustments.

Required Reporting

- Report and support a Minimum 12-month period for market trends.
- Reflect changes in market conditions between the contract date of a comparable sale and the effective appraisal date.
- Every comparable must include a time/market change adjustment (zero adjustments must also be explicitly stated and supported).

Mastering market trend analysis and time adjustments.

Appraiser Responsibility

- Summarize the method used to support time adjustments and ensure the method used is understandable to the report reader.

Acceptable methods:

- ❖ Home Price Indices (HPIs)
- ❖ Statistical Analysis
- ❖ Paired Sales
- ❖ Modeling

Mastering market trend analysis and time adjustments.

A Word on Zero Adjustments:

- A zero adjustment is an adjustment. It must be justified with data and clearly explained.

Why It Matters:

- Ensures transparency.
- Avoids misleading interpretations.

Mastering market trend analysis and time adjustments.

NAN's QC Enhancements

To ensure compliance with the updated Fannie Mae Selling Guide requirements, NAN will implement the following QC procedures soon.

1. Data Source Identification

- Verify that the appraiser specifies the data source used to report property value trends.
- Ensure the reported trends are based on a minimum of 12 months of data.



Mastering market trend analysis and time adjustments.

NAN's QC Enhancements

2. Mandatory Time/Market Adjustments

- Confirm that every comparable sale includes a **time/market condition adjustment**.
- Reinforce that **zero-dollar adjustments** are valid adjustments and must be explicitly stated.

3. Support for Adjustments

- Check that the appraisal report provides **documented support** for all time/market condition adjustments.
- This includes support for **zero-dollar adjustments**.

Defining Neighborhoods and Market Areas.

General Rule

Track The Trends

Support The
Adjustments



Report the Rationale

Questions?



Answers