

Beyond the Box: Appraising for Non-QM Lending

Welcome to this comprehensive guide for mortgage appraisers entering the dynamic world of Non-QM lending. We'll explore specialized techniques and requirements for appraising properties beyond conventional guidelines.



by **William Waltenbaugh**



Today's Agenda

1. **What is Non-QM Lending?** Core concepts
2. **Conventional vs. Non-QM:** Key differences between Conventional and Non-QM assignments
3. **The Investor Borrower:** Informed, savvy, and repeat business
4. **Non-QM Loan Products:** SFR / DSCR, fix-n-flip, and ground-up construction (GUC)
5. **Specialized Valuation Techniques:** Residual valuation technique and feasibility analysis
6. **Lender Requirements:** Navigating varied guidelines
7. **Compliance & Quality Control:** Best practices for appraisers
8. **Key Takeaways & Questions:** Bring your questions. Don't be shy.

What Is Non-QM Lending?



Definition

Non-QM stands for "Non-Qualified Mortgage." These are legitimate, regulated loans.



Not Subprime or Non-Compliant

Non-QM is not a negative term. It simply means "non-conforming" to standard guidelines.



Outside Guidelines

Loans that fall outside Fannie Mae/Freddie Mac or FHA requirements.



Target Audience

Often used by real estate investors or borrowers with unique qualifying situations.



Non-QM vs. Conventional/FHA

Conventional/FHA

- Conventional loans follow strict Fannie/Freddie Selling Guides
- FHA loans adhere to HUD Handbook requirements
- Standardized appraisal guidelines
- Uniform reporting formats

Non-QM

- Not bound by GSE or FHA guidelines
- Specific Letter of Engagement (LOE) lender requirements apply
- Scope of Work is paramount
- Flexible approval considerations

Understanding the Investor Borrower



ROI-Focused

Investors make decisions based on return potential. They expect precise valuations.



Data-Savvy

They often research properties extensively. Your analysis must withstand scrutiny.



Portfolio Builders

Many acquire multiple properties yearly. They understand market dynamics well.



Clear Expectations

They require well-supported rental conclusions and valuations. Credibility is essential.



Common Non-QM Loan Products

Fix & Flip (Rehab)

Short-term loans based on As-Is value (AIV) and After-Repair Value (ARV). Typically 6-24 month terms.

Ground-Up Construction

Finances land purchase plus building costs. Valuation compares land and construction against future value.

DSCR and SFR Loans

Debt Service Coverage Ratio and Single Family Rental loans. Property income must cover debt payments. A rent schedule is mandatory.



Residual Valuation Technique



Determine ARV

Calculate After-Repair Value using comparable sales analysis.



Identify Hard Costs

Document construction or rehabilitation expenses based on contractor bids.



Estimate Soft Costs

Include holding costs, financing fees, and investor profit requirements.



Calculate Residual Value

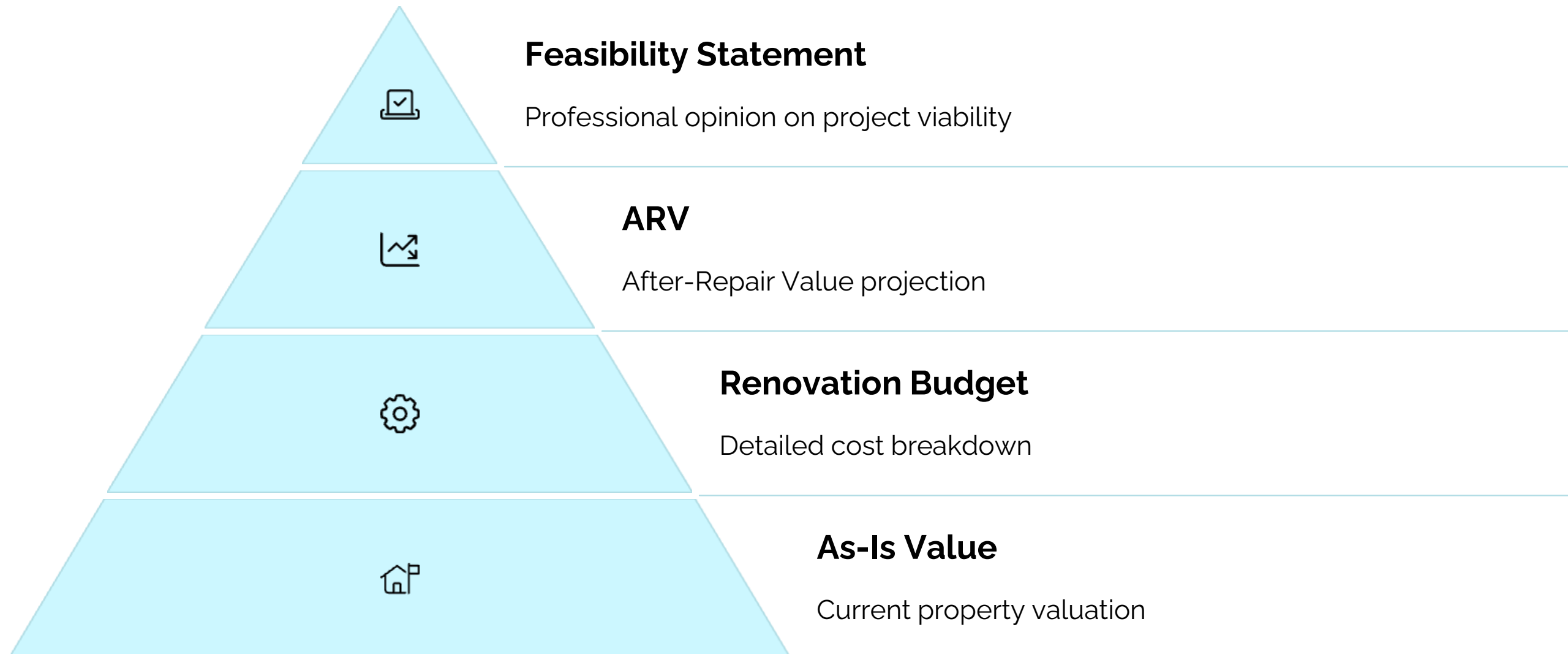
Subtract total costs from ARV to determine estimated As-Is value.



Provide Breakdown

Include detailed commentary supporting all figures in your report.

Feasibility Analysis Overview



Feasibility analysis is recommended for Fix & Flip projects. Lenders rely on this assessment to determine whether a project makes business sense.

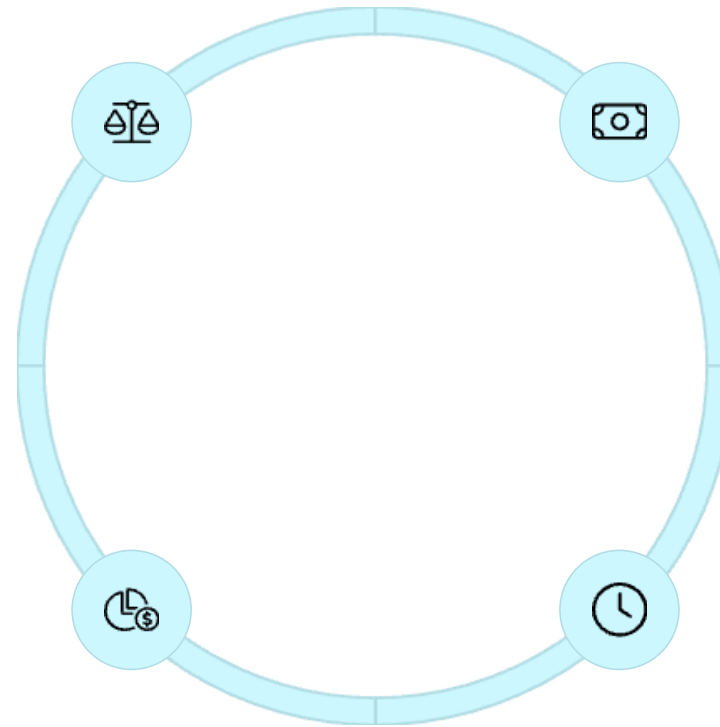
What Makes a Project Feasible?

Risk vs. Reward

Is the potential profit worth the project risk?

Market Conditions

Local trends must support the projected ARV.



Profit Margin

Sufficient spread between total investment and ARV.

Time Consideration

Timeline for completion affects holding costs.

Investors don't pursue projects with minimal returns. Your analysis should reflect sound business logic even without calculating exact ROI.

Preferred Feasibility Example

Starting Point	As-Is Value	\$220,000
Investment	Renovation Costs (Hard + Soft)	\$80,000
End Result	After-Repair Value (ARV)	\$340,000
Outcome	Net Gain	\$40,000
Viability	Profit Margin	~18%

This example demonstrates a favorable feasibility scenario with an 18% margin. Most investors consider projects with 15%+ margins worthwhile.

Your appraisal should clearly document how market conditions support this ARV projection, thereby strengthening lender confidence in the project.

Know Your Lender's Rules

Understand The Requirements

Some lenders require both As-Is and ARV on the same report. The reporting method may vary from one client to the next.

Know Loan Restrictions

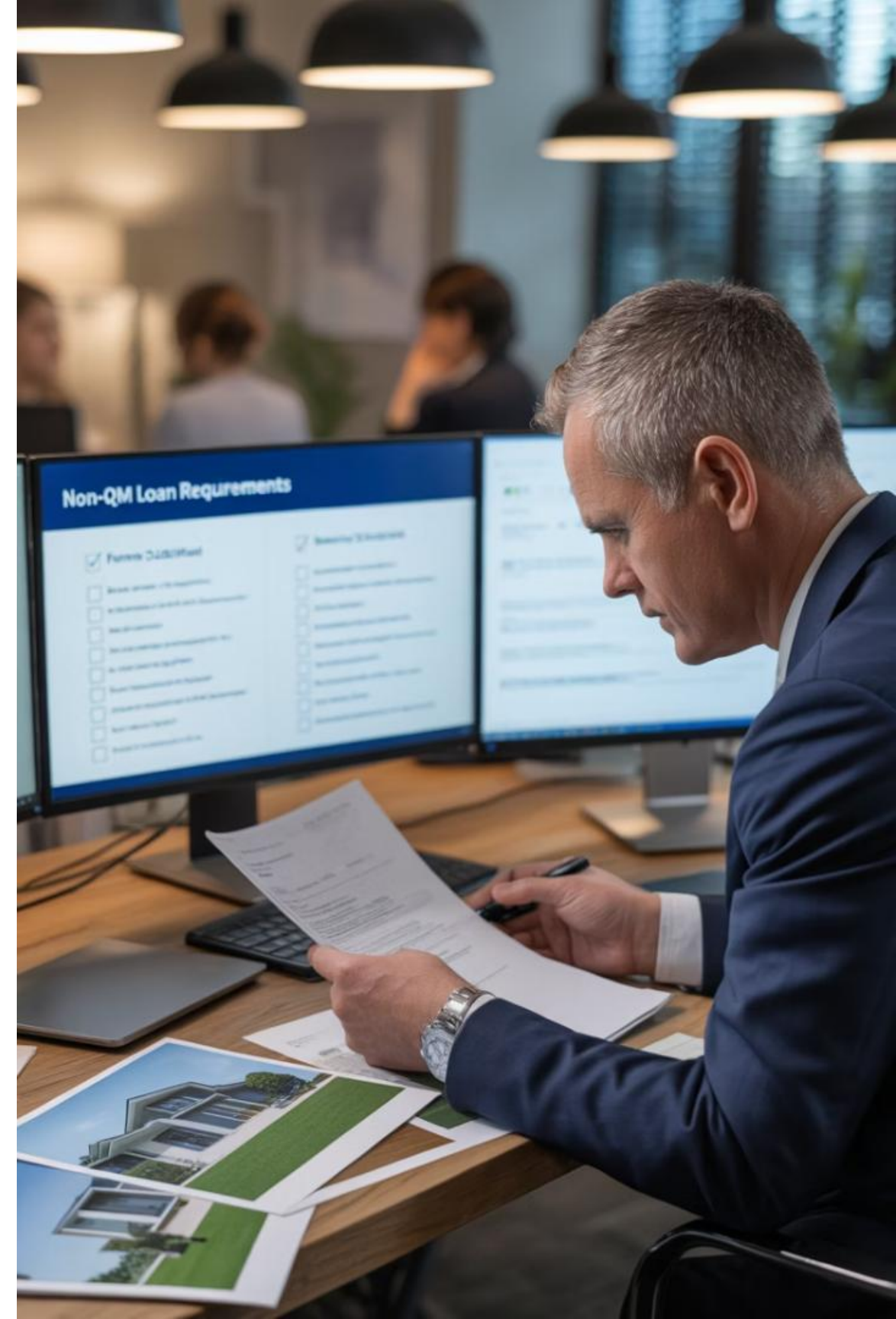
Many Non-QM lenders avoid owner-occupied units and rural properties. Provide support for these conclusions.

Follow Documentation Guidelines

Special photo requirements may apply. Short-term rental analysis using specific forms may be needed.

Request Clarification When Needed

Each lender has unique requirements. Ask questions if instructions seem unclear.



Quality Control Starts With Scope



Review Engagement Letter

Understand all requirements before starting your work, this includes the inspection



Understand the Intended Use and Users

Know who will rely on your appraisal and for what purpose



Document Requirements

Identify all required value types, photos, and addenda needed



Note Limitations

Clearly state assumptions and constraints

Many revision requests stem from misunderstanding the initial scope. Careful review of instructions prevents unnecessary rework.

Compliance Still Applies



Fair Housing Compliance

Bias and discrimination remain prohibited in Non-QM appraisals. Focus on physical characteristics, not demographic information.



Protected Class References

Avoid any commentary related to protected classes.



Appropriate Photography

Do not include people in property photos.



USPAP Still Applies

Reports must still meet all USPAP expectations.

Non-QM's flexibility doesn't extend to fair housing and USPAP compliance standards. Professional and ethical guidelines still apply.



Reduce Revision Requests



Underwriters need reports that match their expectations. Provide all required values and clearly label addenda. Use commentary to explain unusual decisions.



Summary & Takeaways

1

Read Carefully

Letter of Engagement is your roadmap. Follow it precisely.

2

Support Logically

ARV and feasibility must be thoroughly justified.

3

Stay Compliant

Professional standards apply even in flexible lending environments.

4

Be Precise

Non-QM allows flexibility but demands accuracy and support in all valuations.

Your credibility as a valuation expert remains paramount. Clear communication and thorough support for conclusions will establish you as a trusted Non-QM appraiser.

Questions?

