

RD AN No. 3934 (1980-D)
February 10, 2004

TO: All State Directors
Rural Development

ATTENTION: Rural Housing Program Directors, Guaranteed Rural Housing
Specialists, Rural Development Managers, and Community
Development Managers

FROM: Arthur A. Garcia *(Signed by Arthur A. Garcia)*
Administrator
Rural Housing Service

SUBJECT: Acceptable Appraisal Forms
Single Family Housing Guaranteed Loan Program (SFHGLP)

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to announce that the SFHGLP now permits the lender to instruct its appraiser to use one of the following appraisal forms in relation to a SFH loan for, or refinance of a loan, secured by an owner-occupied one-family residential property:

- Uniform Residential Appraisal Report (URAR) (Freddie Mac Form 70/Fannie Mae Form 1004).
- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055).
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055).
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073, Freddie Mac Form 465) (for individual condominium units only).

Expanding the number and type of appraisal report forms will provide lenders with more flexibility and, in some cases, result in reduced closing costs for the loan applicant.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 3816 (1980-D), dated January 10, 2003, which expired on January 31, 2004.

EXPIRATION DATE:
February 28, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

BACKGROUND:

RD Instruction 1980-D, Section 1980.334(b)(1) states that the appraiser will use the most recent revision of the Uniform Residential Appraisal Report (URAR). The URAR has long been the industry standard for single-family residential mortgage appraisal reports.

During the late 1990's, both Freddie Mac and Fannie Mae developed, introduced, and began to evaluate more streamlined appraisal forms, including:

- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055).
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055).

Form 2055 is very similar to the URAR except for the omission of the income and cost approaches to value. The mortgage industry and the residential real estate appraisal profession have found that these two approaches to value typically are not reliable if the proposed mortgage will be secured by an owner-occupied one-family residential property. This applies to both new and existing dwellings in most market areas.

Although Form 2055 was designed initially to be used only for mortgages processed using an automated underwriting system (AUS), both Freddie Mac and Fannie Mae expanded the use of this form and began accepting Form 2055 for manually underwritten (non-AUS) mortgages several years ago.

Industry experience has shown that, in most cases, Form 2055 provides all of the necessary appraisal information necessary to originate and underwrite a mortgage secured by an owner-occupied one-family residential property (including a unit in a condominium or PUD project).

The Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073, Freddie Mac Form 465) may be used for one-family residential properties that are units in condominium projects.

IMPLEMENTATION RESPONSIBILITIES:

Regardless of the appraisal form used, the appraiser must complete the following steps:

- Use the most recent revision of the form chosen to document the appraisal.
- Perform both an interior and exterior inspection of the subject property.
- Provide a description and analysis of the subject property, neighborhood, site, and improvements.
- Complete a sales comparison analysis including at least three (3) comparable properties, providing specific sales or financing concession information for the comparables.

- Develop the cost approach to value in cases in which it is requested by the lender, or considered by the appraiser to be a good indicator of value for the subject property. (As an example, the appraiser may believe that the cost approach is a good indicator of value if the dwelling is less than one year old or has been recently renovated.)
- Include an opinion of value for the site in all cases. If the site value is more than 30 percent of the total value of the property, the appraiser should provide opinions regarding whether the value of the site is typical for the area, and whether the site can be subdivided into two or more sites.
- Attach a narrative explanation supporting unusual adjustments.
- Include other comments, data, and exhibits if they are needed to adequately describe the subject property, document the analysis and valuation process, or support the appraiser's conclusions.
- Include clear, descriptive photographs (either in black and white or color) of the front, rear and street views of the subject property. Generally, photographs should be originals that are produced either by photography or electronic imaging.
- Include clear, descriptive photographs (either in black and white or color) of the front view for each comparable sale used in the completion of the appraisal. Generally, photographs should be originals that are produced either by photography or electronic imaging; however, copies of photographs from a multiple listing service or from the appraiser's file are acceptable if they are clear and descriptive.
- Provide an adequately supported estimate of market value.

SUMMARY:

The SFHGLP now permits the lender to instruct its appraiser to use any of the following appraisal forms in relation to a SFH loan for, or refinance of a loan secured by an owner-occupied one-family residential property:

- Uniform Residential Appraisal Report (URAR) (Freddie Mac Form 70/Fannie Mae Form 1004)
- Desktop Underwriter Quantitative Analysis Appraisal Report (Fannie Mae Form 2055)
- Loan Prospector Quantitative Analysis Appraisal Report (Freddie Mac Form 2055)
- Individual Condominium Unit Appraisal Report (Fannie Mae Form 1073, Freddie Mac Form 465) (for individual condominium units only).

Regardless of the appraisal form used, the loan file must contain clear and sufficient support for the underwriter's decisions regarding the security property and loan approval.

We encourage state offices to develop ways to distribute this AN to local appraisers. Developing an appraiser email list may be one way to share this information.

State offices with questions regarding this AN should contact Robert E. Keyes or Joaquín Tremols by calling (202) 720-1452 or by sending an email to Robert.Keyes@usda.gov or Joaquin.Tremols@usda.gov.