

Appraisal Review: Guidance For Rural Properties

October 2019



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Genworth 
Mortgage Insurance

Present Trends: Rural Appraisals

Today's Discussion:

- Agency Updates
- General Rural Appraisal Issues
- Identifying Properties as Rural
- Review of Appraisal Form for Rural Property Concerns

Describe, Describe, Describe.

QUIZ QUESTIONS

What Does “Urban Projection” Mean?

“A term used to describe an underwriting mindset that enforces urban norms on rural markets-”

-Adam Johnston-Insurance Director of Operations and Chief Appraiser, Genworth Mortgage Insurance

- Rural markets are often the opposite of suburban markets and without proper education and training the result is unnecessary underwriting conditions, delays and lost loans.
- For Rural appraisers it can be a chronic source of frustration
 - Repeated call backs for information already articulated on the appraisal report
 - Requests for additional comps that are not available

Ensuring Proper Training Of All Underwriters, QC, Appraisers, AMCs Is Critical In Rural Markets

Why do rural appraisal take so long to obtain?

- Lack of comps so take appraiser longer
- Lack of appraisers
- Rural location so takes longer to get to property and comps
- Rural appraisals don't take longer

Why do rural appraisal take so long to obtain?

Lack of comps so takes appraiser longer to complete assignment

Lack of appraisers

Rural location so takes longer to get to property and comps

Rural appraisals don't take longer

Delays In Rural Areas Are Frequently The Result Of Appraiser Availability, As In Rural Markets; There Are Minimal Mortgage Transactions-Thus Fewer Appraisers

AGENCY UPDATES

Freddie Mac Bulletin 2018-16

Selling Updates

- Selling and servicing requirements for our Community Land Trust mortgage offering
 - Must be approved by Freddie Mac to originate
- Additional flexibility in the use of sweat equity as a source of down payment for Home Possible® Mortgages
 - Allows now for the entire down payment to come from sweat equity



Bulletin

TO: Freddie Mac Sellers and Servicers

September 26, 2018 | 2018-16

SUBJECT: DUTY TO SERVE AFFORDABLE HOUSING PRESERVATION AND RURAL HOUSING

Making housing available and affordable nationwide is fundamental to Freddie Mac's community mission. Over the past several years, we have increased our efforts to stabilize communities, responsibly expand credit, prevent foreclosures, educate future borrowers and counsel existing Borrowers. In our Duty to Serve plan, we committed to increasing our support for very low-, low- and moderate-income families in three historically underserved markets: manufactured housing, rural housing and affordable housing preservation. This Bulletin announces new and revised underwriting guidelines to facilitate a secondary market for Mortgages in support of affordable housing preservation and rural housing.

In response to industry feedback and current market practices, and to help preserve affordable housing, we are announcing:

- The eligibility of [Community Land Trust Mortgages](#) for sale to Freddie Mac
- Updated requirements for Mortgages secured by [properties subject to resale restrictions](#), including resale restrictions imposed to limit the occupancy and resale of the property to individuals or households of very-low, low- or moderate-incomes

We are also introducing more flexible requirements to use [sweat equity](#) as a source of Down Payment and/or Closing Costs for our Home Possible® Mortgage offering to make housing affordable, particularly in rural areas.

COMMUNITY LAND TRUST MORTGAGES ELIGIBLE FOR SALE – SELLING AND SERVICING REQUIREMENTS

Effective November 5, 2018

Community Land Trusts seek to preserve affordability of homes by retaining ownership of land and leasing it under a long-term ground lease to a homebuyer who purchases the improvements on the land at a below market rate. Access to traditional mortgage financing through Community Land Trust Mortgages has been limited.

To facilitate the origination and Servicing of Community Land Trust Mortgages, Freddie Mac has developed the following requirements:

Selling requirements

The requirements provided in new Guide Chapter 4502 include, but are not limited to, the following:

- A Borrower must be an eligible Borrower under the Community Land Trust's program requirements
- The Mortgage must be a First Lien, conventional fixed-rate Mortgage secured by a 1-unit Primary Residence that is not a Manufactured Home
- Purchase and "no cash-out" refinance transactions, and as permitted by the Community Land Trust, cash-out refinance transactions, are eligible
- A Community Land Trust Mortgage may be submitted to Loan Product Advisor® or may be a Manually Underwritten Mortgage
- Borrowers must execute a specified form of ground lease meeting certain requirements (a "Community Land Trust Ground Lease"), as well as Freddie Mac's new form of Community Land Trust Ground Lease Rider, new Guide Form 490

Freddie Mac Bulletin 2014-5



Bulletin

April 1, 2014 | 2014-5

SELECTION OF COMPARABLE SALES AND ANALYSIS

REQUIREMENTS FOR

APPRAISER SELECTION

The Seller may select an appraiser for any appraisal assignment, but the Seller must ensure that the selected appraiser has the appropriate local market knowledge and experience necessary to produce an accurate opinion of the market value of the property. Appraisers, like Sellers, face unique challenges in the appraisal of properties located in rural market areas, which makes appraiser selection an important consideration for the Seller. Our property appraisal requirements enable appraisers to exercise prudent judgment in developing an opinion of the property's market value. The Seller is responsible for determining the eligibility of the property and the acceptability of the appraisal report.

... long as the appraiser can justify and support such use in the appraisal report. Freddie Mac's property and appraisal requirements:

- Allow appraisers to use comparable sales that are older than 12 months
- Do not require comparable sales to be any particular distance from the subject property. This is especially relevant in rural areas due to lack of housing density. For example, appraisers may have to use comparable sales that are farther than comparable sales used in an appraisal of a property in a suburban location.
- Allow appraisers to use comparable sales that may not appear to be similar to the subject property. This is particularly important in rural market areas due to the relatively low sales volume and the wide variety of properties often found in these market areas.

... is to exercise prudent responsible for determining

... specified in Guide Exhibit 35, such as appraisal management AMC or any other third-party

... Independence Requirements. appraisers and independent fee

... wing: an production staff

- Third-party vendors
- AMCs

Freddie Mac's Selling Guide

5601.2 < Prev Next >

General property eligibility requirements

Effective 06/19/2019

[Guide Home](#) / [Selling](#) / [Series 5000: Origination and Underwriting](#) / [Topic 5600: Property Eligibility and Appraisal Requirements](#) / [Chapter 5601: Property Eligibility and Appraisal Requirements](#)

[Copy Link](#) | [Print](#)

Freddie Mac expects the Seller to place as much emphasis on the adequacy of the property as collateral as it does on underwriting the Borrower's creditworthiness. The conclusion that a Mortgage is acceptable to Freddie Mac must be based on the determination that the Borrower is creditworthy (acceptable credit reputation and capacity) and the Mortgaged Premises is adequate collateral for the Mortgage transaction. The Seller is responsible for determining the eligibility of the property and the acceptability of the appraisal report.

Related Sections

[8104.6 Incomplete improvements](#)

[4606.4 Purchase and no cash-out refinance Mortgage to finance energy and/or water efficiency improvements](#)

Freddie Mac will purchase eligible Mortgages secured by residential properties in urban, suburban and rural market areas as long as the Mortgaged Premises is adequate collateral for the Mortgage transaction based on the value, condition and marketability of the property. Freddie Mac does not purchase Mortgages secured by vacant or undeveloped land, land development properties or properties used primarily for agriculture, farming or commercial enterprise. The Mortgaged Premises must be residential based on the property characteristics, zoning and land use.

Freddie Mac 2017-20



Bulletin

TO: Freddie Mac Sellers

September 14, 2017 | 2017-20

SUBJECT: SELLING UPDATES

This Guide Bulletin announces:

APPRAISAL REQUIREMENTS

Trainee and supervisory appraisers

In response to Seller inquiries we are specifying that an unlicensed or trainee (or similar classification) appraiser may perform and sign an appraisal report in accordance with State law. We are also specifying that an unlicensed or trainee (or similar classification) appraiser may perform a completion report as long as a supervisory appraiser also signs the completion report.

Loan Product Advisor has been updated to reflect this change.

Guide impacts: Sections 5601.3, 5601.5 and 5601.11

Super conforming Mortgages

We are streamlining our appraisal requirements by no longer requiring: (i) an appraisal field review report for super conforming Mortgages when the loan-to-value (LTV)/total LTV (TLTV)/Home Equity Line of Credit (HELOC) TLTV (HTLTV) ratio is greater than 75% and the value is \$1 million or greater (ii) the use of a lower value and (iii) the appraiser be qualified to perform appraisals without oversight or supervision.

Loan Product Advisor has been updated to reflect this change.

Guide impact: Section 4603.5

Using multiple listing service photographs for comparable sales

Previously, copies of MLS photographs could be used for comparable sales only if the original photographs could not be obtained. Additionally, an explanation was required by the appraiser as to why MLS photographs were being used.

To provide flexibility and create efficiency in the appraisal and underwriting processes, we are removing these requirements and now allow clear electronic images, including copies of MLS photographs, to be used for comparable sales without an explanation from the appraiser.

Guide impact: Section 5601.10

[Mortgages when assets are used as a basis for repayment of](#)
[is "assets as a basis for Mortgage qualification"\)](#)

[\(RS\) and restricted stock unit \(RSU\) income types](#)
[requirements](#)

[are eligible for purchase](#)

[d, trainee \(or similar classification\) appraisers may perform the](#)
[report](#)

[requirements for super conforming Mortgages](#)

[copies of multiple listing service \(MLS\) photographs may only be used](#)
[photographs are not available](#)

Owner-occupancy requirements for New Condominium Projects

- [Changing the owner occupancy requirement from at least 70% of the total units in the project to at least 50% of the total units in the project](#)

[Condominium Unit insurance](#)

the [Additional Guide Updates](#) section of this Bulletin

Bulletin are effective immediately unless otherwise noted.

t of obligations

reviewing our requirements, we are changing and expanding the
1, formerly titled "Assets as a basis for Mortgage qualification." The changes
owing:

maintain significant funds in securities and depository accounts and may use
ations. As a result, we are adding depository accounts and securities as
ons which include, but are not limited to, the following:

Fannie Mae

Delivering Servicing Training Technology

Selling Guide

Published June 5, 2019

[Guide Table of Contents](#)

B2-3-01: General Property Eligibility (12/04/2018)

This topic contains information on Fannie Mae's property eligibility requirements, including:

- [Overview](#)
- [Number of Units](#)
- [Property Location](#)
- [Property Requirements](#)
- [Acceptable Forms of Property Ownership](#)
- [Acceptable Dwelling Types](#)
- [Ineligible Properties](#)
- [Loan-Level Price Adjustments](#)

Delivering Servicing Training Technology

Selling Guide

Published June 5, 2019

[Guide Table of Contents](#)

B4-1.3-08: Comparable Sales (10/02/2018)

This topic contains information on selection of comparable sales, including:

- [Selection of Comparable Sales](#)
- [Minimum Number of Comparable Sales](#)
- [Age of the Comparable Sales](#)
- [Additional Requirements for New \(or Recently Converted\) Condos, Subdivisions, or PUDS](#)
- [Rural Properties](#)
- [Use of Foreclosures and Short Sales](#)

Fannie Mae LL 2014-02



Lender Letter LL-2014-02

March 25, 2014

To: All Fannie Mae Single-Family Sellers

Property and Appraisal Requirements for Properties Located in Small Towns and Rural Areas

This Lender Letter is being issued in response to a Federal Housing Finance Agency directive to Fannie Mae to provide a number of clarifications regarding property and appraisal requirements for properties in small towns and rural areas.

Fannie Mae offers mortgage products and establishes eligibility guidelines that are designed to provide

Property Eligibility and Special Considerations

Determining property eligibility can be challenging for loans in small towns and rural areas. Zoning, land use, property type, and other influences must all be considered, in addition to property condition and marketability. Many rural properties have mixed use, mixed zoning or other unusual characteristics that make determining property eligibility difficult. Properties may be located on large parcels of land, and/or have numerous outbuildings with secondary uses that are not residential in nature. In addition, property improvements may be very unique and not easily compared with available market data.

Fannie Mae will purchase mortgages in small towns and rural areas provided the properties that serve as collateral are primarily residential in nature and use, given that all other requirements and conditions concerning property eligibility have been met. Unique properties, which include various construction types and techniques, are also acceptable, including log homes, geodesic dome homes, and berm homes.

Fannie Mae will not purchase mortgages on properties that are not primarily residential in nature including, but not limited to, vacant land or property primarily used for agricultural or commercial purposes.

For additional information, see the *Selling Guide*, [B2-3, Occupancy and Property Eligibility](#); [B4-1.4-03, Appraisal Report Review: Property Location](#); [B4-1.4-04, Appraisal Report Review: Trend of Neighborhood Property Values, Demand/Supply, and Marketing Time](#); and [B4-1.4-11, Appraisal Report Review: Conformity of Improvements to Neighborhood](#).

SEL 2014-16

Selling Guide Announcement SEL-2014-16

December 16, 2014

Selling Guide Updates

The *Selling Guide* has been updated to include changes to the following:

- Self-Employed Income
- Servicing Execution Tool™
- Solar Panels
- Adjustments to Comparable Sales
- Flood Insurance for Nonresidential Detached Structures
- Cure Provision for Points and Fees
- Payment Calculation for Student Loans
- Nonstandard Repayment Plans

Adjustments to Comparable Sales

As a result of an analysis of Uniform Appraisal Dataset data specific to comparable adjustments, Fannie Mae has eliminated the 15% net and 25% gross adjustment guidelines and has provided clarification with respect to Fannie Mae's expectations for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to limits on the size of the adjustments.

Updated Selling Guide Topic

- [B4-1.3-09](#), Adjustments to Comparable Sales (Analysis of Adjustments)

Effective Date

This change is effective immediately.

- Clarified that Schedule K-1 for the most recent two years is required when using business income to qualify.

QUESTION

Are Either of These Outbuildings Acceptable?



Characteristics indicating property is rural and residential

OVERVIEW: RURAL PROPERTY CHALLENGES

Challenges

Rural Property Appraisal Challenges

- Does the Appraiser have the expertise to form an acceptable opinion of value?
- Residential Usage
- Comparable properties
- Value adjustments in sales
- Need for complete, detailed explanations

Acceptable Appraisal Practices

Appraisers, like lenders, face unique challenges in the valuation of properties located in small towns and rural areas. This makes appraiser selection an important consideration of the lender. As previously noted, appraisers must have the knowledge, expertise, and experience to perform appraisals in rural markets.

General Considerations

Appraiser Selection

Appraiser Selection Criteria

Lenders are reminded that appraisers must have the requisite knowledge to perform a professional quality appraisal for the specific geographical location and particular property types. The use of an appraiser who has the appropriate knowledge of specific geographical markets, access to the appropriate data sources, and experience in appraising specific property types within those markets will help to ensure that valuations are accurate and that appraisal practices are appropriate. Although the Uniform Standards of Professional Appraisal Practice (USPAP) allows an appraiser who does not have the appropriate knowledge and experience to accept an appraisal assignment by providing procedures with which the appraiser can complete the assignment, Fannie Mae requires that lenders only use appraisers who have the appropriate knowledge and experience, and does not allow the USPAP flexibility. Consequently, the *Selling Guide* has been updated to state that appraisers who lack the requisite knowledge, experience, and access to appropriate data must not be utilized.

Additional revisions have been made to clarify that the lender is responsible for the appraiser's qualifications and quality of the work, and to provide guidance for determining an appraiser's qualifications.

11. I have knowledge and experience in appraising this type of property in this market area.
12. I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records and other such data sources for the area in which the property is located.

General Considerations

Ensuring Residential Usage

- Characteristics of the subject property
- Zoning
- Present land use
 - Land uses that are generally **not** allowed:
 - Agricultural properties such as
 - Farms
 - Orchards
 - Ranches
 - Undeveloped land
 - Properties not readily accessible by roads that meet local standards
 - Boarding houses
 - Bed & Breakfast properties
 - Properties not suitable for year-round occupancy

General Considerations

“Agricultural”

- Definition
 - Cultivating land
 - Raising crops
 - Feeding, breeding, or raising livestock
 - Farming
 - Producing crops, livestock, or poultry
- Highest and best use is ?
- No indication of farming activity

Rural Property Considerations in the Neighborhood Section Fields

NEIGHBORHOOD SECTION

Describing Location

Urban, Suburban or Rural

Neighborhood Characteristics				One-Unit Housing Trends				One-Unit Housing		Present Land Use %		
N E I G H B O R H O O D	Location	<input type="checkbox"/> Urban	<input type="checkbox"/> Suburban	<input type="checkbox"/> Rural	Property Values	<input type="checkbox"/> Increasing	<input type="checkbox"/> Stable	<input type="checkbox"/> Declining	PRICE	AGE	One-Unit	%
	Built-Up	<input type="checkbox"/> Over 75%	<input type="checkbox"/> 25-75%	<input type="checkbox"/> Under 25%	Demand/Supply	<input type="checkbox"/> Shortage	<input type="checkbox"/> In Balance	<input type="checkbox"/> Over Supply	\$ (000)	(yrs)	2-4 Unit	%
	Growth	<input type="checkbox"/> Rapid	<input type="checkbox"/> Stable	<input type="checkbox"/> Slow	Marketing Time	<input type="checkbox"/> Under 3 mths	<input type="checkbox"/> 3-6 mths	<input type="checkbox"/> Over 6 mths	Low		Multi-Family	%
	Neighborhood Boundaries								High		Commercial	%
									Pred.		Other	%
	Neighborhood Description											
	Market Conditions (including support for the above conclusions)											

Neighborhood Section

Rural Property Indicators

- Rural location box indicated
- Urban/Suburban location ratings in areas that seem rural to the underwriter
- Under 25% built-up
- Slow growth
- Stable values
- Over six month marketing time
- Wide range of housing prices and age ranges
- Wide variation in land uses
- Wide neighborhood boundaries

Describing the Neighborhood

Robust Neighborhood Description

- Distance to major/primary employment center
- Distance to local shopping/retail/commercial
- Government services available
- Shared school districts
- Competing/Market alternative communities or neighborhoods
- Housing density and/or population characteristics

Neighborhood Description

First of Two Slides

Describing the Neighborhood

Robust Neighborhood Description

- Primary employment
- Typical residential lot sizes
- Land uses
- Sales and listing activity specifics
- Property and housing characteristics

Neighborhood Description

Second of Two Slides

Neighborhood Section Exercise

Neighborhood Description Wyoming is a small rural town located approx. 20 miles southeast of Anamosa with mostly scattered rural residential properties and agricultural land.

Neighborhood Boundaries Boundaries include a 10 mile radius surrounding the subject property located outside the town of Wyoming - primarily single family residential and agricultural.

1. Are the above captioned Neighborhood Description and Neighborhood Boundaries adequate?
2. Do you feel that the appraiser has provided a sufficient picture of the neighborhood?
3. If not, what additional items or description would you like to see?

Neighborhood Section Exercise

In regard to the distance of comparable sales in the subject's rural location, Fannie Mae only requires that distant sales represent the best indicators of value and that the appraiser explain why the specific sales were selected.

This appraiser states “these are considered the best comparables available” and also notes “there are no other recent sales with more similar style, location, condition, construction, appeal, and amenities”. Although this may generally meet directives set forth by Fannie Mae, ...

Proximity to Subject		32.93 miles W	18.73 miles W	20.69 miles W
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Neighborhood Section Exercise

... the sales selected were not within the 10 mile radius around the subject that the appraiser defined as the neighborhood. It seems contradictory to then state that “all comparables are located in the same neighborhood as the subject property”. Further explanation of locational influences and predominant values specific to the subject and each comparable sale would be warranted prior to relying on the appraisal conclusions.

When looking at the location map, it is clearly seen that all sales are due west of the subject property and significantly closer to the more densely developed area of Cedar Rapids, with sale #1 appearing to actually be in the outer edge of the Cedar Rapids suburbs. It is unclear whether this proximity would have a negative, positive, or neutral influence on these sales, but the lack of explanation from the appraiser is concerning.

Rural Property Considerations in the Site Section Fields

SITE SECTION

Site Challenges

Maximum Acreage Guidelines

- No maximum
 - Fannie Mae®
 - Freddie Mac®
- Maximum acreage
 - Many lenders – check guidelines
 - Genworth – Simply UnderwriteSM no restriction
 - Genworth Standard guidelines: over 40 acres, submit file for Genworth review

Site Challenges

Zoning and Land Use

- Subject Property Zoning
 - Zoning Class Reported with a statement of what is permitted
 - One-unit
 - Two-unit
 - If noted R1 or R2
 - Legal
 - Legal nonconforming use
 - Illegal to zoning
 - No zoning
- Permissible Use of Land
- Highest and Best Use

Residential or Agricultural?

Highest and best use must be legally permitted, financially feasible, and physically possible and must provide more profit than any other use of the site would generate

Highest and Best Use

Fannie Mae will only purchase or securitize a mortgage that represents the highest and best use of the site as improved. If the current improvements clearly do not represent the highest and best use of the site as an improved site, it must be indicated on the appraisal report.

The appraiser determines highest and best use of a site as the reasonable and probable use that supports the highest present value on the effective date of the appraisal. For improvements to represent the highest and best use of a site, they must be legally permitted, financially feasible, and physically possible, and must provide more profit than any other use of the site would generate. All of those criteria must be met if the improvements are to be considered as the highest and best use of a site.

The appraiser's highest and best use analysis of the subject property should consider the property as it is improved. This treatment recognizes that the existing improvements should continue in use until it is financially feasible to remove the dwelling and build a new one, or to renovate the existing dwelling. If the use of comparable sales demonstrates that the improvements are reasonably typical and compatible with market demand for the neighborhood, and the present improvements contribute to the value of the subject property so that its value is greater than the estimated vacant site value, the appraiser should consider the existing use as reasonable and report it as the highest and best use.

Site Challenges

Well and Septic Systems

- Meet Community Standards
- Be adequate
- Be in service
- Acceptable to area residents
- Public or private road
- Generally, on the subject site
 - Legally binding agreement for access and maintenance for off-site private facilities
- Explanation of hazards impacting well, septic or private water systems
 - Certification that water meets community standards

Public Or Private Road?

Look at your photos or the street

Community-Owned or Privately Maintained Streets

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- responsibility for payment of repairs, including each party's representative share;
- default remedies in the event a party to the agreement or covenant fails to comply with his or her obligations; and
- the effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.

Note: If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required.

If the property is not located in a state that imposes statutory requirements for maintenance, and either there is no agreement or covenant for maintenance of the street, or an agreement or covenant exists but does not meet the requirements listed above, the lender may still deliver the loan. However, the lender is required to indemnify Fannie Mae (as described in [A2-1-03, Indemnification for Losses](#)) against all losses incurred by Fannie Mae as a result of the physical condition of the street or in order to establish and/or retain access to the street.

Rural Property Considerations in Describing the Improvements
IMPROVEMENTS SECTION

Improvements Section Exercise

PROBLEM

Finished area **above** grade contains: 9 Rooms 4 Bedrooms 2.50 Bath(s) 2,750 Square Feet of Gross Living Area Above Grade
Additional features (special energy efficient items, etc.) The subject has a wood deck and screened porch. The subject has a horse barn and two other outbuildings. One of the outbuildings is finished.

Would you like to see a more detailed description of the outbuildings?

Improvements Section

PROVEM	Finished area above grade contains:	9	Rooms	4	Bedrooms	2.50	Bath(s)	2,750	Square Feet of Gross Living Area Above Grade
	Additional features (special energy efficient items, etc.) The subject has a wood deck and screened porch. The subject has a horse barn and two other outbuildings. One of the outbuildings is finished.								

Barns and other outbuildings...

1. Describe (size, age, condition, utility, commonality)
2. Analyze (cost vs. contributory value, special purpose)
3. Value
4. Support with Market Data

An appraiser must not “Guess” at the contributory value of an outbuilding

- Devaluing outbuildings or overvaluing outbuildings are both inappropriate

Market Data...Market Data...Market Data...Market Data...Market Data...

Unconventional Improvements

Unconventional improvements require comprehensive descriptions and explanations.

– Examples of unconventional improvements:

- Log homes
- Earth homes
- Geodesic homes
- Converted barns

– Market data to support:

- Value
- Marketability
- Market reaction

Choosing Comparable Properties and Making Sales Comparison
Adjustments

SALES COMPARISON SECTION

Rural Property Challenges

Establishing value through sales comparison for rural properties presents several challenges, including issues surrounding:

- Insensitivity of the typical buyer to variances in property characteristics
 - The lack of available market alternatives often compels rural homebuyers to be less sensitive to differences in housing style.
- Lack of available inventory
- Accurately describing distances
- Lack of comparable sales
- Large adjustments
- Need for supplemental sales data
- Need for competing listings
- Comp vs. market alternative
 - A market alternative is a competing or substitute property
 - They may not always be highly similar in physical characteristic to the subject
 - In rural markets, the lack of comparable listings may force buyers to be less sensitive to some property differences

People Don't Sell Houses So Appraisers Have Comps

Selecting Comparable Properties

Distance Between Subject and Comparables

- Fannie Mae® and Freddie Mac®
 - No maximum distance

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. Therefore, there may be a shortage (or absence) of recent truly comparable sales in the immediate vicinity of a subject property that is in a rural location. Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property. In such cases, the appraiser must use his or her knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value. The appraisal must include an explanation of why the particular comparables were selected.

Selecting Comparable Properties

Additional Considerations

- Reliance on older comps
 - Best comparables available
 - Written explanation
- Additional comparables
 - Sufficient market support
 - Appropriate bracketing
- Outside sources for confirmation
 - Realtors
 - Public records
 - Other appraisers
 - Title companies

Sales Comparison

When there are outbuildings:

- Minimal outbuildings
 - Typical in the subject area
 - Comparables with similar outbuildings
- Significant outbuildings
 - Residential vs. Agricultural
 - Avoiding across-the-board adjustments due to lack of comps?
 - What could they be used for?
 - Finding additional comparables
 - Expanded search dates/criteria
 - Extent of search

Fannie Mae Selling Guide

Selling Guide

Published June 5, 2019

B4-1.3-05: Improvements Section of the Appraisal Report (10/24/2016)



This topic contains information on reviewing the Improvements section of the appraisal report

Properties with Outbuildings

A lender must give properties with outbuildings special consideration in the appraisal report review to ensure that the property is residential in nature. Descriptions of the outbuildings should be reported in the Improvements and Sales Comparison Approach sections of the appraisal report form.

Type of Outbuilding	Acceptability
Minimal outbuildings, such as small barns or stables, that are of relatively insignificant value in relation to the total appraised value of the subject property.	The appraiser must demonstrate through the use of comparable sales with similar amenities that the improvements are typical of other residential properties in the subject area for which an active, viable residential market exists.
An atypical minimal outbuilding.	The property is acceptable provided the appraiser's analysis reflects little or no contributory value for it.
Significant outbuildings, such as silos, large barns, storage areas, or facilities for farm-type animals.	The presence of the outbuildings may indicate that the property is agricultural in nature. The lender must determine whether the property is residential in nature, regardless of whether the appraiser assigns value to the outbuildings.

Freddie Mac Guide

5601.12: Property description and analysis (09/19/18)

The appraiser's description of the subject property must be complete and accurate, and the opinion of the market value of the subject property must be accurate and adequately supported. In addition, the appraiser must have knowledge and experience appraising in the market area in which the property is located. This is particularly important when the property is located in a rural area because there are often a variety of different property types and land uses, which may result in a more challenging appraisal assignment.

The appraisal report forms require the appraiser to certify that the appraiser did not base, either partially or completely, their analysis and/or opinion of market value in the appraisal report on the race, color, religion, sex, age, marital status, handicap, familial status, or national origin of either the prospective owners or occupants of the subject property or of the present owners or occupants of the properties in the vicinity of the subject property or on any other basis prohibited by law.

This section is intended to provide the Seller with information for reviewing the appraisal report and underwriting the property and is organized in the general order that the issues are addressed on appraisal report forms.

Outbuildings on a property, such as barns or stables, must be considered in the underwriting process to determine whether the property is primarily residential or non-residential. A property with a small barn or stable may be acceptable if the contributory value of the outbuilding(s) is minimal in relation to the total appraised value of the subject property. The appraiser must demonstrate in the appraisal (e.g., through the use of comparable sales, pending sales or listings) that these characteristics are typical for residential properties in the market area.

When a property has a large outbuilding, such as a large barn, or silo, or multiple outbuildings or facilities for farm-type animals, it may indicate that the property is agricultural or non-residential regardless of whether the appraiser assigns value to these improvements, and ineligible as security for a Freddie Mac Mortgage.

Properties in rural locations often have relatively large sites as compared to other locations. In addition, there may be a lack of comparable sales due to the relatively low number of recent sales transactions in the market area. In such cases, appraisers may have to use comparable sales that are located a considerable distance from the subject property or comparable sales that are not very similar to the subject property. This is acceptable as long as the appraiser can justify and support the use of the comparable sales and analysis in the appraisal report. For example, if the subject property is a ranch-style home on a large parcel of land (e.g., 44 acres), the most relevant comparable sales may be two-story homes located on smaller parcels (e.g., 6-12 acres) that are located some distance from the subject property (e.g., 8-18 miles away). If an appraiser uses comparable sales such as the ones in this example, he or she must provide a reasonable justification for the use and make appropriate adjustments to account for the differences between the properties and/or location.



Outbuilding, Currently Used For Storage...But How Easy Would It Be To Convert Back to It's Original Use?

Sales Comparison Adjustments

Bracketing - For rural properties “site” is an important feature to bracket



Item	1	2	3	4
Item #	5	5	5	5
Item Description	comparable property sandy street lot 1/4 of the subject neighborhood selling in price per sq ft 180,000	comparable property sandy street lot 1/4 of the subject neighborhood selling in price per sq ft 220,000	comparable property sandy street lot 1/4 of the subject neighborhood selling in price per sq ft 201,000	comparable property sandy street lot 1/4 of the subject neighborhood selling in price per sq ft 220,000
Address	3000x Oakdale Drive Durham, NC 27701	200x Oakdale Dr Durham, NC 27707	3500x Hope Valley Rd Durham, NC 27707	3500x Hope Valley Rd Durham, NC 27707
Sale Price	\$ 218,000	\$ 223,000	\$ 220,000	\$ 215,000
Date Sold	11/15/14	11/12/14	1/2/15	1/2/15
Source	TMLS 12445 DOM 90	TMLS 15678 DOM 95	TMLS 14599 DOM 98	TMLS 14599 DOM 98
Assessor	Durham County Assessor	Durham County Assessor	Durham County Assessor	Durham County Assessor
Value Adjustment				
Location	N.Res.	N.Res.	N.Res.	N.Res.
Site	20000 sf	20038 sf	621562 sf	620000 sf
Design (Style)	DT1,Ranch	DT1,Ranch	DT1,Ranch	DT1,Ranch
Quality of Construction	Q4	Q4	Q4	Q4
Total Age	S1	S0	0-45	0-58
Condition	C4	C3	-8,000 C4	C4
Gross Living Area	2,364 sqft	1,990 sqft	+7,400 2,156 sqft	+2,600 2,250 sqft
Garment & Frame	606x400sf	606x400sf	606x400sf	606x400sf
Form (Style Code)	1r1br1 0ba0o	1r1br1 0ba0o	1r1br1 0ba0o	1r1br1 0ba0o
Functional Utility	Average	Average	Average	Average
Heating/Cooling	Central Air	Central Air	Central Air	Central Air
Energy Efficient Items	None	None	None	None
Garage/Port	2oa2dr	2oa2dr	2oa2dr	2oa2dr
Porch/Patio/Deck	Patio	Patio	Patio	Patio
Fireplace	Brick	Brick	Brick	Brick
Net Adjustment (Total)			-2,600	1,800
Adjusted Sale Price				
% of Comparison			111.5%	101.4%

Selling Guide

Published December 4, 2018

[➤ Guide Table of Contents](#)

B4-1.3-09: Adjustments to Comparable Sales (01/31/2017)

This topic contains details on selected adjustments to the comparable sales, including:

[Analysis of Adjustments](#) ➤

[Sales or Financing Concessions](#) ➤

[Date of Sale and Time Adjustments](#) ➤

[Appraiser's Comments and Indicated Value in the Sales Comparison Approach](#) ➤

Fannie Mae does not have specific limitations or guidelines associated with net or gross adjustments. The number and/or amount of the dollar adjustments must not be the sole determinant in the acceptability of a comparable. Ideally, the best and most appropriate comparable would require no adjustment; however this is rarely the case as typically no two properties or transaction details are identical. The appraiser's adjustments must reflect the market's reaction (that is, market based adjustments) to the difference in the properties. For example, it would be inappropriate for an appraiser to provide a \$20 per square foot adjustment for the difference in the gross living area based on a rule-of-thumb when market analysis indicates the adjustment should be \$100 per square foot. The expectation is for the appraiser to analyze the market for competitive properties and provide appropriate market based adjustments without regard to arbitrary limits on the size of the adjustment.

If the extent of the appraiser's adjustments to the comparable sales is great enough to indicate that the property may not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported.

Sales Comparison Adjustments

Appraisal Review Checklist

Revised 03/2015

SALES COMPARISON APPROACH:		Yes	No	n/a
39.	Did appraiser provide # comparable listings & # of closed sales in subject neighborhood, along with a price range?	<input type="checkbox"/>	<input type="checkbox"/>	
40.	Did appraiser provide address, city and proximity of each comparable, including data verification sources, DOC #'s & DOM? If sales/listings discovered in MLS, is the MLS # provided?	<input type="checkbox"/>	<input type="checkbox"/>	
41.	Did appraiser provide "sale type" and "financing type" along with the amount of any concessions, as applicable?	<input type="checkbox"/>	<input type="checkbox"/>	
42.	Are sales within the required time frames or addressed with support? Six months in most cases would be typical	<input type="checkbox"/>	<input type="checkbox"/>	
43.	Do comparables have similar quality ratings (Q1-Q6)? If no, is an explanation/adjustment provided?	<input type="checkbox"/>	<input type="checkbox"/>	
44.	If time adjustments made, did appraiser provide commentary / proper support?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
45.	Is it consistent with Neighborhood section / Demand & Supply?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
46.	Are site sizes for subject / comps provided? Has to be actual size, not "typical".	<input type="checkbox"/>	<input type="checkbox"/>	
47.	Do at least 2 comps have same bedroom count as the subject? If no, is subject bedroom count bracketed?	<input type="checkbox"/>	<input type="checkbox"/>	
48.	Do the adjustments appear to be supported, justified and explained by the appraiser?	<input type="checkbox"/>	<input type="checkbox"/>	
49.	Are Gross (25%/Net (15%) adjustments within guidelines and/or addressed?	<input type="checkbox"/>	<input type="checkbox"/>	
50.	Are adjustments done in "proper direction" (+/-)?	<input type="checkbox"/>	<input type="checkbox"/>	
51.	Are adjustments being made consistently for the same item descriptions?	<input type="checkbox"/>	<input type="checkbox"/>	
52.	Are the UAD location factors and overall rating codes provided? Are they similar to the subject?	<input type="checkbox"/>	<input type="checkbox"/>	
53.	Are at least three closed comparable sales provided?	<input type="checkbox"/>	<input type="checkbox"/>	
54.	Are additional listings/pending sales provided as per any investor overlays?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
55.	If comp is a listing, are the list date and original list price and any changes to list price provided?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
56.	Are the distances between comps reasonable for the neighborhood / location?	<input type="checkbox"/>	<input type="checkbox"/>	

	Yes	No	n/a
... match the sales contract?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... owner of public record?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... match the application and USP's format?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... current owner of public record?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... has it been listed for sale in the past 12 months?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... (3) and does it make sense?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... record for the most recent six months?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... and all addendums and address any financial assistance to be paid by the amount and contributing party must be disclosed.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... (Terms Length?) as well as Days on Market (DOM)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... map and neighborhood description?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... %? (If not, review the appraisal for a sufficient explanation).	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... value varies >10% from predominant value, appraiser should have	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... ?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... less than one acre, number of acres if larger?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... zonation indicated (i.e. R1 Residential SF or Residential 1 to 4 family)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... appraiser addressed whether subject can be rebuilt if destroyed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... zoning compliance is legal non-conforming or illegal, are the specific on value/marketability adequately addressed and analyzed?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... best and best use?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... dated the shared well agreement?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... on and off-site improvements?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... provide road condition? Must be at least average condition.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... if the tank (above ground / underground)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... sion? Cannot be left blank.	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
... ions, external factors or land use changes? If No, appraiser must	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Fannie Mae Does Not Have Specific Limitations Or Guidelines Associated With Net Or Gross Adjustments. The Number And/Or Amount Of The Dollar Adjustments Must Not Be The Sole Determinant In The Acceptability Of A Comparable.

Sales Comparison Adjustments

Across the line/board adjustments

- Avoidance
- Explanation, why unavoidable

Example: Subject Has a Swimming Pool

The appraiser should provide a comp property with a swimming pool. It can be a fourth comp, or slightly older or farther away if necessary. If a comp cannot be found, the appraiser should explain and support the adjustment.


This way, the appraiser supports that the feature (swimming pool in this case) adds value and the approximate contribution of the feature as well as the marketability of the property with a swimming pool.

Cost vs. Value

Contributory Value

- Not construction cost
 - Land *has* value.
 - Improvements *contribute to* value.

Example: **Property A** has a barn, **Property B** does not.



Otherwise, these are almost identical homes next door to each other that each sold in the past month.

- The barn cost \$20,000 to construct
- **Property A** sold for \$180,000
- **Property B** sold for \$170,000

It appears the barn brought \$10,000 additional value to Property A.
The correct sales comparison adjustment would be \$10,000, not \$20,000.

Sales Comparison – Acreage

Acreage Issues

- Competing acreage
- Bracketing (discussed earlier)
- Site size versus utility

Sales Comparison — Site Value Consistency

COST APPROACH TO VALUE (not required by Fannie Mae.)											
Provide adequate information for the lender/client to replicate your cost figures and calculations.											
Support for the opinion of site value (summary of comparable land sales or other methods for estimating site value) Vacant land sales were gathered to estimate site value.											
COST APPROACH	ESTIMATED <input type="checkbox"/>	REPRODUCTION <input type="checkbox"/>	REPLACEMENT COST <input checked="" type="checkbox"/>	NEW	OPINION OF SITE VALUE					= \$ 18,000	
	Source of cost data Marshall & Swift Residential Cost Handbook				Dwelling	2,750	Sq. Ft. @ \$	71.00	= \$	195,250	
	Quality rating from cost service Average		Effective date of cost data 03/10		Bsmt	1,525	Sq. Ft. @ \$	15.00	= \$	22,875	
	Comments on Cost Approach (gross living area calculations, depreciation, etc.)				Fireplace, Deck, Porch, Built-in Appliances					15,000	
	Replacement costs were estimated using the Marshall & Swift Residential Cost Handbook. Gross living area was measured using the ANSI standard.				Garage/Carpor	528	Sq. Ft. @ \$	27.00	= \$	14,256	
					Total Estimate of Cost-new					= \$ 247,381	
					Less Physical	43	Functional		External		
					Depreciation	106,374		0		0	= \$ (106,374)
					Depreciated Cost of Improvements					= \$ 141,007	
					"As-is" Value of Site Improvements					= \$ 12,000	
				Site/Total= 11%							
Estimated Remaining Economic Life (HUD and VA only) 40				Years	Indicated Value By Cost Approach					= \$ 171,007	

1. Is the above captioned site valuation adequate?
2. Do you feel that the appraiser has supported the opinion of site value?
3. If not, what additional items or description would you like to see?

Site Comparison Challenges

FEATURE	SUBJECT			COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3					
Address	XXXX County Road Anywhere, OH			XXXX Highway Rd Anywhere, OH			XXXX Road Anywhere, OH			XXXX Street Anywhere, OH					
Proximity to Subject				3.5 miles northeast			4 miles south			5 miles west					
Sale Price	\$			\$ 175,000			\$ 185,000			\$ 180,000					
Sale Price/Gross Liv. Area	\$ 0.00 sq. ft.			\$ 64.81 sq. ft.			\$ 69.03 sq. ft.			\$ 64.75 sq. ft.					
Data Source(s)				MLS & Drive-by Observation			MLS & Drive-by Observation			MLS & Drive-by Observation					
Verification Source(s)				County Records			County Records			County Records					
VALUEADJUSTMENTS	DESCRIPTION			DESCRIPTION			+(-)\$Adjustment			DESCRIPTION			+(-)\$Adjustment		
Sale or Financing				Conventional						Conventional					
Concessions				None Reported						None Reported					
Date of Sale/Time				RD: 03/15/10						RD: 02/15/10					
Location	Average			Average						Average					
Leasehold/Fee Simple	Fee Simple			Fee Simple						Fee Simple					
Site	9.3 Acres			9 Acres						3 Acres			+20,000		
View	Rural Residential			Rural Residential						Rural Residential					
Design (Style)	Ranch			Ranch						Ranch					
Quality of Construction	Average			Average						Average					
Actual Age	60 yrs			68 yrs						60 yrs					
Condition	Average			Average						Average					
Above Grade	Total	Bdrms.	Baths	Total	Bdrms.	Baths				Total	Bdrms.	Baths	Total	Bdrms.	Baths
Room Count	9	4	2.50	9	4	2.50				8	3	2.50	8	4	2.50
Gross Living Area	2,750 sq. ft.			2,700 sq. ft.						2,680 sq. ft.			2,780 sq. ft.		

As indicated in the cost approach, the subject's site value is \$18,000.

1. How do you feel about the site value adjustments to comps 2 and 3?

Comments Areas and Sections

FEMA Special Flood Hazard Area	<input type="checkbox"/> Yes <input type="checkbox"/> No	FEMA Flood Zone	FEMA Map #	FEMA Map Date
Are the utilities and off-site improvements typical for the market area? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe				
Are there any adverse site conditions or external factors (easements, encroachments, environmental conditions, land uses, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe				

C O M M E N T S	Additional features (special energy efficient items, etc.)
	Describe the condition of the property (including needed repairs, deterioration, renovations, remodeling, etc.).
	Are there any physical deficiencies or adverse conditions that affect the livability, soundness, or structural integrity of the property? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, describe
	Does the property generally conform to the neighborhood (functional utility, style, condition, use, construction, etc.)? <input type="checkbox"/> Yes <input type="checkbox"/> No If No, describe

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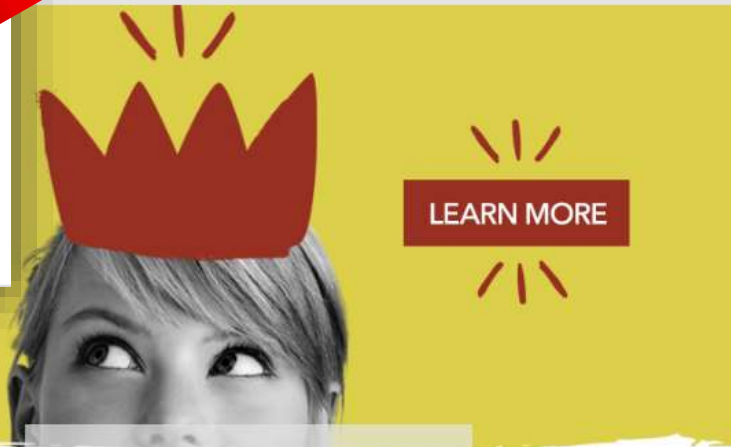
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