

RD AN No. 4099 (1980-D)
August 3, 2005

TO: All State Directors
Rural Development

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

FROM: Russell T. Davis (*Signed by Russell T. Davis*)
Administrator
Rural Housing Service

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

PURPOSE/INTENDED OUTCOME:

The purpose of this Administrative Notice (AN) is to clarify that the SFHGLP permits the lender to instruct its appraiser to use variations of the Uniform Residential Appraisal Report forms in relation to a SFHGLP loan for, or refinance of a loan, secured by an owner-occupied one-family residential property.

COMPARISON WITH PREVIOUS AN:

This AN replaces RD AN No. 4054 (1980-D), dated February 28, 2005, to revise expiration date.

EXPIRATION DATE:
October 31, 2005

FILING INSTRUCTIONS:
Preceding RD Instruction 1980-D

Starting November 1, 2005, new appraisal forms will become effective, as indicated in an unnumbered letter dated June 10, 2005. The forms mentioned in this AN will then become obsolete, and this AN will not be reissued.

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 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 a Planned Unit Development (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 color or in black and white) 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 color or in black and white) 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 permits the lender to instruct its appraiser to use any of the following appraisal forms in relation to a SFHGLP 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.

Anyone with questions regarding this AN should contact Joaquín Tremols by calling (202) 720-1452.

Attachment