

# DMBA Appraisal Update – March 2022

Special request questions for DMBA Members? If any of you have questions during the month, please feel free to email or call for a personal response. If the topic is of enough interest, it can be expanded and included in next month's update. Thanks,

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## **Mark's Market Thoughts:**

The DFW and National markets remain strong. Low supply, reasonable interest rates and strongly increasing prices due to competing buyers. Case-Shiller has reported a 20% "average" increase for our local market; however, remember not all areas enjoy the same appreciation rates.

The Realtors are having a difficult time due to the lower inventory of listings.

The appraisal side has a couple of Fannie Mae induced changes in practice which will be rolling out very soon.

1. ANSI is an appraisal measurement standard. Fannie Mae is seeking to standardize the appraisal measurements. Overall, this will have little impact for the DFW market as we have few basements and most construction is reasonably standardized.
2. Fannie Mae Desktop Appraisal are rolling into active status. This will be an ongoing development as the desktop method still has issues being resolved. We will open the details next month as the issues and responses are still being addressed. Such issues include, how does the appraiser get the subject data, if the borrower provides the data, they could be biased. Fannie Mae wants a Floor Plan with interior rooms and layouts. Who does that? . .

Personally, I see several issues that may create obstacles and prevent the reliable and qualified appraisers from accepting the orders until a trustworthy method is accepted.

More important these new requirements conflict with business standards from the past and current. i.e.

1. How can a desktop provide an ANSI square footage if the appraiser does not inspect and measure?
2. Fannie Mae has required the appraiser view and take photos of each comparable. Now the appraiser must rely on MLS photos? In our regentrification markets, often comparables are razed for site value. If we see it removed it makes a weak comparable when comparing it to an improved SFR. Or it is difficult to see the real impact a busy street, commercial view, from an aerial photo.
3. More to follow!

The following are portions of articles and the Fannie Mae announcement pages.

# Fannie Mae to Adopt ANSI Measurement Standard in 2022



On December 15, 2021, Fannie Mae issued [Announcement SEL-2021-11](#) which heralded a number of changes that were made to its *Selling Guide*. Several of the changes are aimed at underwriters and do not affect appraisers; however, there is one significant change for appraisers that will change the way they inspect properties in the not-so-distant future.

As of April 1, 2022, Fannie Mae will require appraisers to measure subject property improvements using ANSI Standard Z765-2021. According to the Announcement, “Appraisals requiring interior and exterior inspections must follow this standard; appraisals of this type performed without using this standard will not be acceptable.”

The American National Standards Institute (ANSI) revised its Z765 Standard early in 2021; previous versions of this standard should not be used. Appraisers should note that ANSI Z765 applies only to single-unit (single-family) residences. Also, ANSI Z765 must be used in its entirety; an appraiser is not permitted to pick and choose which part or parts of the standard to use.

. Here are some items for appraisers to consider when using the ANSI Z765-2021 standard

- Measurements are taken to the nearest inch or tenth of a foot, and the final square footage is reported to the nearest whole square foot.
- Staircases are included in the GLA of the floor from which they descend.
- Basement is any space that is partially or completely below grade.
- The GLA calculation does not include openings to the floor below, e.g., two-story foyers.
- Finished areas must have a ceiling height of at least 7'. In a room with a sloping ceiling, at least 50% of the finished square footage of the room must have a ceiling height of at least 7' and no portion of the finished area that has a ceiling height of less than 5' can be included in the GLA.
- If a house has a finished area that does not have a ceiling height of 7' for 50% of the finished area, e.g., some cape cods, in conformance with the ANSI Standard, the appraiser may put this area on a separate line in the Sales Comparison Grid with the appropriate market adjustment. The report will be ANSI-compliant and acknowledge the contributing value of the non-GLA square footage.
- Fannie Mae requires this standard effective April 1, 2022.

## **What if comparable sales are measured differently?**

GLA for properties in local MLS systems and assessor records may not be ANSI-compliant. The appraiser may not know what method an MLS listing or assessor used to calculate the GLA. Through research and their knowledge of the local market, appraisers determine if the GLA provided through alternate sources should be adjusted. The adjustment process does not change the requirement to report subject GLA to the ANSI standard



# Standardized Property Measuring Guidelines

## Updated guidance

Appraisers will be required to use the Square Footage-Method for Calculating: ANSI<sup>®</sup> Z765-2021 (American National Standards Institute<sup>®</sup>) Measuring Standard for measuring, calculating, and reporting gross living area (GLA) and non-GLA areas of subject properties for appraisals requiring interior and exterior inspections with effective dates of April 1, 2022 or later on loans sold to Fannie Mae.

Historically, Fannie Mae's *Selling Guide* has not required the use of a specific measurement standard. This policy update will standardize the method used to measure, calculate, and report GLA and non-GLA areas of subject properties.

All footprint sketches and floor plans must be computer-generated (not hand-drawn), indicate all the dimensions needed to calculate the GLA and other required areas such as garage and basement, and show the calculations to demonstrate how the estimate for gross living area was derived.

## Why the change?

Valuations of residential property correlate strongly with GLA, yet to date there is little consistency in how appraisers determine it. Our adoption of the ANSI standard for measuring, calculating, and reporting square footage:

- Creates alignment across market participants.
- Provides a professional and defensible method for the appraiser.
- Allows transparent and repeatable results for the user of the appraisal report.

## How well do you know ANSI?

Here are some items for appraisers to consider when using the ANSI standard<sup>1</sup>:

- Measurements are taken to the nearest inch or tenth of a foot, and the final square footage is reported to the nearest whole square foot.
- Staircases are included in the GLA of the floor from which they descend.
- Basement is any space that is partially or completely below grade.
- The GLA calculation does not include openings to the floor below, e.g., two-story foyers.
- Finished areas must have a ceiling height of at least 7'. In a room with a sloping ceiling, at least 50% of the finished square footage of the room must have a ceiling height of at least 7' and no portion of the finished area that has a ceiling height of less than 5' can be included in the GLA.
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## What if comparable sales are measured differently?

GLA for properties in local MLS systems and assessor records may not be ANSI-compliant. The appraiser may not know what method an MLS listing or assessor used to calculate the GLA. Through research and their knowledge of the local market, appraisers determine if the GLA provided through alternate sources should be adjusted. The adjustment process does not change the requirement to report subject GLA to the ANSI standard.

## Is there an exception process?

If the appraiser is unable to adhere to the ANSI Standard, the appraiser will provide the code "GXX001 -" in the Additional Features field on the appraisal form and must explain why compliance was not possible. For example, berm homes with their entire square footage below grade would be eligible for an exception. The appraiser must provide justification for an exception, lenders are responsible for confirming the appraiser provided an adequate explanation. Fannie Mae will monitor for inappropriate use of exceptions (i.e., using methods other than the ANSI standard for homes that have typical above grade square footage).

## What next?

For additional information, see *Selling Guide* [B4-1.3-05](#), Improvements Section of the Appraisal Report and [B4-1.2-01](#), Exhibits for Appraisals.

Appraisers can visit [Home Innovation Research Labs](#) to obtain a copy of the standard and might consider taking a continuing education course to sharpen their skills.

Appraisers are encouraged to begin using the ANSI Z765-2021 Standard as soon as possible; however, it will be required for appraisals with effective dates of April 1, 2022 or later.

<sup>1</sup> American National Standard for Information Sciences — Square Footage — Method for Calculating, ANSI, Z765-2021 (approved March 2021)

## About desktop appraisals

Leveraging the wealth of big data, the power of advanced analytics, and the speed of technology, appraisers can perform desktop appraisals without physically inspecting the property.<sup>1</sup>

### Desktop appraisal benefits

- Supports digital transformation in the mortgage origination process.
- Cost- and time-efficient process benefits borrowers and lenders.
- May reduce confirmation bias.
- Mitigates appraiser capacity constraints.
- Rigorous testing shows similar risk performance compared to traditional appraisals.
- Improves disaster/pandemic response time.

### Additional resources

- [DU release notes for March 19, 2022 update](#)
- [URAR Hybrid and Desktop Appraisal Forms — Quick Reference](#)
- [URAR Hybrid and Desktop Appraisal Forms — Overview](#)

1. This fact sheet provides a summary for reference only. All criteria are subject to the formal terms and conditions of the Selling Guide.

2. Basic eligibility: purchase transaction, one-unit principal residence, LTV is less than or equal to 90%, and DU Approve/Eligible recommendation.

## Appraiser and lender responsibilities



Lender receives message from Desktop Underwriter® (DU®) indicating the casefile is eligible<sup>2</sup> for a desktop appraisal.



Lender orders desktop appraisal.

Lender and borrower always have the option to order a traditional appraisal (Form 1004) or execute an appraisal waiver if offered.



Appraiser receives assignment for desktop appraisal reported on Form 1004 Desktop.



Appraiser conducts analysis and develops opinion of value.

- Use Form 1004 Desktop.
- No physical inspection of the subject property; data may be provided by various parties (buyer/seller agent, homeowner, builder, appraiser files, etc.) and through secondary data sources (public records, MLS, internet, etc.).
- Must include floor plan with interior walls.
- The appraiser must have sufficient information to develop a credible report.
- Data provided by parties with a financial interest in the sale or financing of the subject property must be verified by a disinterested source.



Appraiser submits report.



Lender reviews the appraisal to confirm it:

- is reported on Form 1004 Desktop,
- includes a floor plan, and
- meets all other requirements.



Lender submits appraisal to the Uniform Collateral Data Portal® and delivers the loan through Loan Delivery. Choose “DesktopAppraisal” as the appraisal method type in loan delivery data.

# About desktop appraisals

## Desktop FAQs

1

**What Fannie Mae form will appraisers use to complete a desktop appraisal?**

Appraisers must use [Fannie Mae Form 1004 \(Desktop\)](#) to complete desktop appraisals. Note that this is a different form from the traditional forms used (with a modified set of instructions, scope of work, statement of assumptions and limiting conditions, and certification) for appraisals using the COVID-19 Temporary Flexibilities, which have since expired.

2

**What are the differences between the traditional Form 1004 and Form 1004 (Desktop)?**

See the [URAR Hybrid and Desktop Appraisal Forms — Overview](#) for a line-by-line comparison of the differences between Forms 1004 and 1004 (Desktop).

3

**Does Certification 10 allow an appraiser to accept information about the transaction from someone with a financial interest (i.e., homeowner, real estate agent)?**

Yes, provided the appraiser verifies the information through a disinterested source, such as aerial maps, assessor data, or virtual inspection technologies.

4

**What is the difference between a floor plan and a sketch?**

A floor plan shows interior walls to help assess the functional utility of the home; a sketch typically displays only exterior dimensions.

5

**How can a floor plan be created digitally?**

Third-party software is available to create a floor plan using existing mobile device technology.

6

**Can appraisers use a previously available floor plan?**

Yes, if it is accurate and representative of the current state of the property.

7

**Do homeowner-provided photos require verification?**

Photos can be verified using MLS listings or with a live, virtual walkthrough with the homeowner. Photos that are taken during a live walkthrough with the homeowner are considered appraiser observation during a live event and do not require further verification.

8

**What should the appraiser do if they cannot verify information?**

If the appraiser does not have information to create a credible report, they should take the necessary steps to verify or obtain the information necessary for a credible report.

9

**How will lenders know if a loan transaction is eligible for a desktop appraisal?**

Desktop Underwriter® (DU®) will indicate when a loan casefile is eligible for a desktop appraisal. Ordering a desktop appraisal is optional; lenders can always opt to order a traditional appraisal if the borrower wants one or for other reasons.