



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT  
WASHINGTON, DC 20410-8000

ASSISTANT SECRETARY FOR HOUSING-  
FEDERAL HOUSING COMMISSIONER

**March 23, 2009**

**MORTGAGEE LETTER 2009-09**

**TO: ALL APPROVED MORTGAGEES  
ALL FHA ROSTER APPRAISERS**

**SUBJECT: Adoption of Market Conditions Addendum (Fannie Mae Form 1004MC/Freddie Mac Form 71) and Appraisal Reporting Requirements for Properties located in Declining Markets**

Currently, all Federal Housing Administration (FHA) Roster Appraisers are required to report on housing trends in the Neighborhood section of the applicable property specific appraisal reporting form. The Uniform Standards of Professional Appraisal Practice (USPAP) mandate that an appraiser maintain documentation necessary to support all analyses, opinions and conclusions for each appraisal assignment in a work file. In order to ensure greater transparency and accuracy of appraisals performed for FHA-insured financing, FHA will adopt the Market Conditions Addendum (Fannie Mae Form 1004MC/Freddie Mac Form 71, released November 2008). For all appraisals of properties that are to be security for FHA-insured mortgages and that are performed on or after April 1, 2009, the appraisal must include the Market Conditions Addendum. Fannie Mae Announcement 08-30 contains further information and instructions on completing the Addendum and is *available online at:*

<https://www.efanniemae.com/sf/guides/ssg/amnltrs/pdf/2008/0830.pdf>

The announcement provides guidelines for using Fannie Mae Form 1004MC which should be utilized by FHA Roster Appraisers to complete the form. Additional guidelines and instructions provided in the announcement that are unrelated to completing Fannie Mae Form 1004MC are not applicable to FHA appraisal reporting requirements and procedures. FHA Roster Appraisers and FHA Mortgagees are reminded that seller concession guidance is provided in Mortgagee Letter 2005-02.

**Use of Closed Comparable Sales and Active Listings/Pending Sales for Appraisals in Declining Markets**

Mortgagee Letter 2007-11 provides guidance on appraisal practices in declining markets and Mortgagee Letter 2008-09 provides guidance for when there is need for a second appraisal for properties located in declining markets and limitations on cash-out refinances. As economic instability continues to impact many segments of the economy and

as home prices continue to decline in many housing markets throughout the country due to job losses and increased foreclosures, FHA finds it necessary and prudent to set forth additional guidance for collateral assessment practices for properties located in a declining market. This guidance is also effective April 1, 2009.

### **Declining Markets**

Although there is no standard industry definition, for purposes of performing appraisals of properties that are to be collateral for FHA insured mortgages, a declining market is considered to be any neighborhood, market area, or region that demonstrates a decline in prices or deterioration in other market conditions as evidenced by an oversupply of existing inventory or extended marketing times. A declining trend in the market will be identified by the conclusions of the 1004MC form. The appraiser must provide a summary comment and provide support for all conclusions relating to the trend of the current market.

### **Appraisal Reporting Requirements in Declining Markets**

Appraisals of properties located in declining markets must include at least two comparable sales that closed within 90 days prior to the effective date of the appraisal. In some markets compliance with this requirement may be difficult or not possible due to the lack of market data and, in these cases, a detailed explanation is required. The appraiser is expected to include at least two sales that are as similar as possible to the subject and which settled within 90 days of the effective date of the appraisal in order to show recent market activity.

In order to ensure that FHA receives an accurate and thorough appraisal analysis, the inclusion of comparable listings and/or pending sales is required in appraisals of properties that are located in declining markets. Specifically, the appraiser must:

- Include a minimum of two active listings or pending sales on the appraisal grid of the applicable appraisal reporting form in comparable 4-6 position or higher (in addition to the three settled sales).
- Insure that active listings and pending sales are market tested and have reasonable market exposure to avoid the use of over priced properties as comparables. Reasonable market exposure is reflected by typical marketing times for the neighborhood. The comparable listings should be truly comparable and the appraiser should bracket the listings using both dwelling size and sales price whenever possible.
- Adjust active listings to reflect list to sale price ratios for the market.
- Adjust pending sales to reflect the contract purchase price whenever possible or adjust pending sales to reflect list to sale price ratios.
- Include the original list price, any revised list prices, and total days on the market (DOM). Provide an explanation for DOM that do not approximate time frames

reported in the Neighborhood section of the appraisal reporting form or that do not coincide with the DOM noted in the Market Conditions Addendum.

- Reconcile the adjusted values of active listings or pending sales with the adjusted values of the settled sales provided. If the adjusted values of the settled comparables are higher than the adjusted values of the active listings or pending sales, the appraiser must determine if a market condition adjustment is appropriate. The final value conclusion should not be based solely on the comparable listing or pending sales data.
- Include an absorption rate analysis, which is critical to developing and supporting market trend conclusions, as mandated by the Market Conditions Addendum. For example, assuming 36 sales during a six month period, the absorption rate is 6 sales per month (36/6).

### **Data Requirements**

Data regarding market trends is available from a number of local and nationwide sources. Appraisers must be diligent in using only impartial sources of data.

- The appraiser must verify data via local parties to the transaction: agents, buyers, sellers, lenders, etc. (if the sale cannot be verified by a party then public records or other impartial data source that can be replicated may be used). A Multiple Listing Service (MLS) by itself is not considered a verification source.
- Unacceptable data sources include local and national media and other sources considered not readily verifiable. Appraisal results should be able to be replicated.
- Known or reported incentives or sales concessions must be noted in the financing section of the grid for any active or pending comparable used.

### **Lender Responsibilities**

Lenders are responsible for properly reviewing the appraisal and determining if the appraised value used to determine the mortgage amount is accurate and adequately supports the value conclusion.

Direct Endorsement lenders are reminded that if the appraiser they selected provides a poor or fraudulent appraisal that leads FHA to insure a mortgage at an inflated amount, the lender is held responsible, equally with the appraiser, for the integrity, accuracy and thoroughness of an appraisal submitted to FHA for mortgage insurance purposes.

### **Information Collection Requirements**

Paperwork reduction information collection requirements contained in this document have been approved by the Office of Management and Budget (OMB) under the Paperwork Reduction Act of 1995 (44 U.S.C. 3501-3520) and assigned OMB control number 2502-0059. In accordance with the Paperwork Reduction Act, HUD may not conduct or sponsor, and a person is not required to respond to, a collection of information unless the collection displays a currently valid OMB Control Number.

If you should have any questions concerning this Mortgagee Letter, call 1-800-CALLFHA. Persons with hearing or speech impairments may access this number via TDD/TTY by calling 1-877-TDD-2HUD (1-877-833-2483)

Sincerely,

Brian D. Montgomery  
Assistant Secretary for Housing-  
Federal Housing Commissioner

