

Freddie Mac Multifamily/Multifamily Seller/Servicer Guide, Volume 1/Chs. 12-15: Appraisal, Environmental and Engineering Requirements/Chapter 12: Appraiser and Appraisal Requirements/12.1: General requirements (09/08/04)

12.1: General requirements (09/08/04)

For all multifamily purchase programs and products, the Seller/Servicer must submit with each multifamily Mortgage file a written Appraisal on the Property. The Appraisal may be on the applicable Freddie Mac appraisal form (see Section 12.11) with attachments (see Section 12.20) and any necessary addenda. The Appraisal must be ordered by and completed for the Seller/Servicer and signed by an appraiser approved by the Seller/Servicer. Freddie Mac will not accept Appraisals ordered by and/or prepared for anyone other than the Seller/Servicer. Freddie Mac will determine whether an Appraisal complies with its requirements.

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12.2: Purpose of Appraisal (09/08/04)

Appraisals must estimate market value of the Property as of the effective date of the Appraisal, subject to stated assumptions and limiting conditions.

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12.3: Market value definition (09/08/04)

Appraisers must use the definition of market value set forth below, which conforms to the definition of market value adopted in the Uniform Standards of Professional Appraisal Practice (USPAP). If the appraiser elects to use Form 71A, Appraisal Report—Residential Income Property, the appraiser must delete the definition of market value printed on the form and must complete the Appraisal in accordance with the definition below. Market value is defined as follows:

The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller each acting prudently and knowledgeably, and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of the title from seller to buyer under conditions whereby

1. Buyer and seller are typically motivated.
2. Both parties are well informed or well advised, and acting in what they consider their best interests.
3. A reasonable time is allowed for exposure in the open market.
4. Payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto.

5. The price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions granted by anyone associated with the sale.

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12.4: Appraisers (09/08/04)

Freddie Mac does not select or approve specific appraisers for Freddie Mac's multifamily programs or products. The Seller/Servicer selects and approves appraisers.

The appraiser may not be involved or affiliated with any individual or institution involved in the Mortgage submission other than the Seller/Servicer. Appraisers who are staff appraisers of the Seller/Servicer must be independent of the lending, investment and collection functions of the Seller/Servicer.

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12.4(a): Appraiser qualifications (09/08/04)

Each appraiser must

1. Be a certified general appraiser under the appraiser certification requirements of the State in which the Property is located (or a certified appraiser if that State does not confer the designation of certified general appraiser)
2. Appear on the State roster in good standing under the requirements of Title XI of the Financial Institutions Reform, Recovery, and Enforcement Act (FIRREA) of 1989 (For all programs and products except the Multifamily Defensive Refinance Product, if the Appraisal Subcommittee of the Federal Financial Institutions Examination Council has disapproved the licensing and certification requirements of the State in which the Property is located, pursuant to Title XI of FIRREA, the Seller/Servicer must contact the *Applicable Freddie Mac Multifamily Regional Office* for instructions. For the Multifamily Defensive Refinance Product, the Seller must contact the *Applicable Multifamily Asset Management Mortgage Loan Administrator* for instructions.)
3. Be actively and regularly engaged in the appraisal of multifamily properties
4. Have at least three consecutive years of income property appraisal experience
5. Have completed at least two multifamily Appraisals in the past year in the geographic market area where the Property is located
6. Be knowledgeable concerning current real estate market conditions and financing trends in the geographic market area where the Property is located
7. Be experienced in appraising multifamily properties with complexity and characteristics similar to those of the Property (such as the number of units and type of property—garden, mid-rise, high-rise, etc.)

8. Have a working knowledge of construction costs, materials, methods and standards in the geographic market area where the Property is located
9. Have a strong educational background in appraising income properties (Appraisers must have completed successfully several courses relating to income properties. These courses must have been completed through a nationally recognized appraisal organization or accredited college or university.)

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12.4(b): Unacceptable appraisers (09/08/04)

Freddie Mac reserves the right to refuse to accept Appraisals completed by any specific appraiser. Once notified by Freddie Mac that a specific appraiser is unacceptable, the Seller/Servicer may not use that appraiser for multifamily Mortgages offered to Freddie Mac until notified otherwise by Freddie Mac.

For all programs and products except the Multifamily Defensive Refinance Product, the Seller/Servicer must send written notification immediately to the *Applicable Freddie Mac Multifamily Regional Office* if the Seller/Servicer, for cause, discontinues the use of any appraiser who has completed Appraisals within the past 12 months for Mortgages purchased by Freddie Mac. For the Multifamily Defensive Refinance Product, the Seller must send written notification immediately to the *Applicable Multifamily Asset Management Mortgage Loan Administrator*.

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12.4(c): Representations to third parties by appraisers and appraisal services (09/08/04)

Appraisers and appraisal services may not represent themselves to third parties as being Freddie Mac-approved appraisers or appraisal services.

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12.5: Appraiser certification (09/08/04)

The appraiser must

- Attach to the Appraisal all assumptions and limiting conditions and a certification that complies with the requirements of the USPAP, promulgated by the Appraisal Standards Board of the Appraisal Foundation, that are in effect at the time of certification
- Sign and date Form 439, Statement of Limiting Conditions and Appraiser's Certification, and attach Form 439 to the Appraisal. Form 439 must be the version approved for use by Freddie Mac as of the date of the Appraisal. If the appraiser elects to use Form 71A, the appraiser must delete the Certification and Contingent and Limiting Conditions printed on the form.

An appraiser signing an Appraisal as "appraiser" without the accompanying signature of a supervising appraiser must comply with all of the requirements in this chapter. The individual signing the Appraisal as "appraiser" must have inspected the property, performed the analysis and derived the final value conclusion.

An appraiser signing an Appraisal as "supervising appraiser" must accept full responsibility for the contents of the Appraisal. The supervising appraiser must have inspected the Property and must comply with all of the requirements in this chapter.

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12.6: Information provided to appraiser by Seller/Servicer (02/07/06)

At a minimum, the Seller/Servicer must provide the appraiser with the following information on the Property:

1. Complete legal description (see Section 29.3)
2. Survey, if available (see Section 29.5)
3. Rent schedule certified by the Borrower as accurate and correct [see Section 17.8(d)]
4. Income and Expense Statements for the previous three calendar or fiscal years, as applicable, certified by the Borrower as complete and accurate
5. Year-to-date Income and Expense Statement, certified by the Borrower as complete and accurate
6. Copies of executed commercial leases, amendments and attachments, if applicable
7. Engineering report or engineering survey
8. Environmental report
9. Copy of ground leases, if applicable
10. Copy of current sales contracts, if applicable
11. Any other information that the Seller/Servicer knows may affect the value of the Property

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12.7: Seller/Servicer supervision of appraisers (09/08/04)

Seller/Servicers must collect information and documentation from appraisers and applicable regulatory authorities to ensure that each appraiser completing Appraisals for multifamily Mortgages offered to Freddie Mac complies with the requirements set forth in this chapter.

Each file must contain

1. The appraiser's resume
2. Letters of reference from current and past clients
3. Types of properties appraised
4. Documentation showing that the appraiser possesses the certified general classification or certified classification in good standing in accordance with applicable State law
5. Copies of Appraisals if appropriate under the ethics provision of USPAP

Each file must document that the appraiser complies with the requirements of this chapter and that the Seller/Servicever verified the experience information provided by the appraiser to the Seller/Servicever.

The Seller/Servicever must design an internal management control system to ensure compliance with the requirements set forth in this chapter. If the Seller/Servicever identifies a problem area, the Seller/Servicever must take appropriate action to correct the problem. The Seller/Servicever must keep written records of any activity under this internal control system.

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12.8: Discrimination in appraising (09/08/04)

The appraiser may not consider, analyze or report any information that involves race, color, sex, handicap, familial status, religion or national origin of the geographic area, neighborhood, occupants, owners or prospective owners.

As a matter of corporate policy, Freddie Mac will reject any Mortgage supported by an Appraisal that makes reference to race, color, sex, handicap, familial status, religion or national origin of the geographic area, neighborhood, occupants, owners or prospective owners.

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12.9: Effective date of Appraisal (09/08/04)

The effective date of the most current Appraisal must be within 90 days before the date on which the Mortgage's full underwriting package is delivered to Freddie Mac. The Seller/Servicever also must submit all other Appraisals completed on the Property in the past three years, if available to the Seller/Servicever and appropriate under the ethics provision of USPAP. (See also Section 12.10.)

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12.10: Updated Appraisals (09/08/04)

If Freddie Mac receives an Appraisal with an effective date that is more than 90 days before the date on which the full underwriting package is delivered to Freddie Mac, the Seller/Servicer must obtain an updated Appraisal from the appraiser. For the updated Appraisal, the appraiser must reinspect the Property, resurvey the rental comparables and review the market for any additional sales comparables. The documentation that provides the updated Appraisal must clearly indicate the appraiser performed with due diligence. A letter from the appraiser stating only that the value of the Property has not decreased since the original Appraisal is unsatisfactory.

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12.11: Appraisal form (09/08/04)

Form 71A, Appraisal Report—Residential Income Property, may be used for any Appraisal. If the appraiser elects to use Form 71A, the appraiser must comply with the instructions and guidelines on the appraisal form and the requirements of this chapter.

If the appraiser uses Form 71A, the appraiser must use addenda to Form 71A to fully explain the appraiser's estimate of value. The appraiser must supplement the preprinted form with addenda to provide a comprehensive analysis that supports the value reconciliation and final value conclusion. (See Section 12.20 for required attachments.)

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12.12: Appraisals (09/08/04)

When the Seller/Servicer delivers an Appraisal to Freddie Mac, the Seller/Servicer is deemed to make the warranties regarding the Appraisal and the appraiser set forth in Section 5.3. The Seller/Servicer must review each Appraisal in detail for its completeness, accuracy, appraising logic and adherence to the requirements of this chapter. Each Appraisal must

- Comply with the USPAP in effect as of the date of the Appraisal
- Disclose any steps taken by the appraiser to comply with the competency provision of the USPAP, if required

The Appraisal must adequately describe the geographic area, neighborhood, rental competition, sales comparables, site and improvements. The Appraisal must demonstrate a market value supported by the reconciliation of the cost approach, income approach and market approach.

The appraiser must perform the functions stated in this section and in Sections 12.13 through 12.19 to ensure the completeness of each Appraisal.

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12.12(a): Completeness (09/08/04)

The appraiser must complete all questions and descriptions requested by the preprinted form. If information requested by the preprinted form is unavailable, the appraiser must explain why the information is unavailable. If information deemed important to the Appraisal, although not specifically requested by the preprinted form, is unavailable, the appraiser must explain why the information is unavailable.

The appraiser is not limited to information and analysis requested by the preprinted form. The appraiser must consider, analyze and report all information that influences value even if not specifically requested by the preprinted form. The appraiser should supplement the preprinted form with addenda to provide a comprehensive analysis which supports the final value conclusion.

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12.12(b): Inspection (09/08/04)

The appraiser must have made an interior and exterior inspection of the Property. The interior inspection must include interior common areas and unit interiors.

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12.12(c): Tax information (09/08/04)

The appraiser must consider, analyze and report property tax and assessment requirements of the jurisdiction where the Property is located. The appraiser must verify the Property has been fully or partially assessed and provide the most recent assessment date and the next scheduled assessment date of the Property. The appraiser must consider, analyze and report any effect on value due to future scheduled assessments, property tax abatements or other property tax benefits.

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12.12(d): Leasehold estates (09/08/04)

If the Property is fully or partially subject to leasehold interests, the appraiser must consider and analyze how applicable ground leases affect value. The appraiser must make appropriate adjustments to the comparables in the market approach and the cost approach of the Appraisal.

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12.12(e): Sales and other concessions (09/08/04)

The appraiser must consider, analyze and report any

- Current sales contracts, option contracts, contracts for deed, and listings of the Property known to the appraiser
- Sales of the Property within the past three years

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12.12(f): Engineering report or engineering survey (09/08/04)

The appraiser must consider how the results of the engineering report or engineering survey impact the value of the Property.

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12.13: Environmental reports (02/07/06)

The Seller/Servicer must show the appraiser all environmental reports available to the Seller/Servicer before the Appraisal is completed so that the appraiser can properly incorporate the environmental condition into the value of the Property. The appraiser must consider the incremental cost to cure, maintain or operate the property due to the environmental factor. The appraiser must report any environmental concerns commonly known in the geographic area where the Property is located and any environmental concerns with the Property's land or improvements observed or known to the appraiser. The appraiser must comment on how identified environmental hazards affect value (that is, negative market attitudes, disruption of occupancy, rent levels, use of property and cost of cleanup).

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12.14(a): Cost approach (09/08/04)

The appraiser must include proper adjustments for any items adverse to the Property's marketability, such as deferred maintenance, physical deterioration and functional and economic obsolescence. The Appraiser must specifically describe the estimates of accrued depreciation. The estimated land value must indicate the market value of the land, recognizing its highest and best use.

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12.14(b): Market or sales comparison approach (09/08/04)

The appraiser must support the value indicated by the market approach by analyzing the sales of at least three comparable properties. The sales comparables must be physically and vocationally similar to the Property and must have been sold recently. The appraiser must make proper adjustments, when necessary, to the sales comparables for such items as real property rights conveyed, financing terms,

conditions of sale, date of sale, location, physical characteristics and amenities. The appraiser must adequately explain those adjustments. If there is an absence of recent comparable improved sales, the appraiser must consider that absence in estimating the market value.

The appraiser may use the gross rent multiplier (GRM) only if the GRM is customarily used in the Property's market area. The appraiser must derive the GRM from recent sales of comparable properties in the market area of the Property. The appraiser must properly analyze the GRM based on the overall quality and reliability of the gross income the Property has produced or is reasonably expected to produce over the next 12 months.

The appraiser must identify the primary data source which was used to verify comparable sales data in the market approach.

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12.14(c): Income approach (09/08/04)

The appraiser must derive the value indicated by the income approach by considering the following economic factors:

1. The forecasted gross income must consider historical rents of the Property, current rents of the Property and rents currently obtained from comparable units (similar in amenities, location, size, type, style and quality) adjusted for market concessions. The influence and limitations of rent control, rental concessions, historical trends and other relevant factors must be reviewed and analyzed relative to the forecasted gross income of the Property.
2. The estimated vacancy and collection loss must consider historical data of the Property, current data of the Property, rental comparables in the market area and anticipated changes of regional market conditions. The appraiser must use a minimum vacancy and collection loss rate of 5 percent.
3. The forecasted expenses and Replacement Reserves must be comparable with the historical data of the Property and comparable with known and verified expenses in the market area. The forecasted expenses and Replacement Reserves must include future increases in current expenses. The appraiser must use a minimum of \$150 per unit per year for Replacement Reserves.
4. The Capitalization Rate must be based on factors reflecting the overall demands of knowledgeable investors in properties similar to the Property. The Capitalization Rate must be supported by market comparables and must take into account all information requested on Form 71A for each market comparable. The appraiser must report all market comparables used to derive the Capitalization Rate. If the appraiser derives a Capitalization Rate by the band of investment or similar application, the Capitalization Rate must be supported by market data.

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12.15: Area information (09/08/04)

The appraiser must report and accurately explain any negative factors about the property's neighborhood, immediate area and proximity to any adverse influences. If the appraiser uses Form 71A, the appraiser must adequately explain fair or poor ratings of any item in the Summary of Neighborhood and Property section.

The appraiser must

- Consider, analyze and report regional economic trends, such as population, employment concentration and diversification and housing development
- Explain how regional economic trends affect appraised value

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12.16: Rental competition (09/08/04)

The appraiser must identify the primary data source for each rental comparable, such as the name and telephone number of the contact person.

The appraiser must use at least six rental comparables. The appraiser must include current rental competition that affects the Property's economic performance and include all the information that would be requested on Form 71A for each rental comparable. The appraiser must identify and describe projects under construction, planned or proposed that will likely affect the Property's economic performance.

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12.17(a): Market feasibility analysis (09/08/04)

The appraiser must include a market feasibility analysis if the Property is new construction or if the Property has recently undergone major rehabilitation. The market feasibility analysis can be included as a section of the Appraisal or it can be a separate report. The market feasibility analysis must

- Consider, analyze and report the Property's current rental competition and future rental competition, including a review of projects under construction, planned or proposed that may affect the Property's economic performance
- Explain the expected stability and longevity of the Property's current rent levels and occupancy
- Support forecasted rent levels and occupancy
- Analyze rental concessions and absorption rates

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12.17(b): Vacancy (09/08/04)

If the appraiser forecasts a vacancy percentage that is higher or lower than the current vacancy percentage, the appraiser must adequately explain the reasons for the difference in the current vacancy and forecasted vacancy. One line explanations, such as "the market is improving," "the property has updated units" or "the competition is becoming stronger," are unacceptable.

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12.17(c): Rental factors (09/08/04)

The appraiser must consider, analyze and report rental concessions, rental discounts, rental abatements of the Property and market area and explain how these factors affect the Property's economic performance. If the appraiser does not know of any rental concessions, rental discounts or rental abatements, the appraiser must state this fact in the Appraisal.

The appraiser must consider, analyze and report any rent control or rent stabilization of the Property or market area and explain how these factors affect the Property's economic performance.

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12.17(d): Seasonal and cyclical influences (09/08/04)

The appraiser must consider, analyze and report seasonal and cyclical influences that may affect annual rental income and occupancy of the Property.

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12.17(e): Income (09/08/04)

The appraiser may include income from sources other than residential units when calculating total gross income if such income is supported by at least three years' historical operations, is common in the market and is expected to continue in the future. Such other sources include commercial space, laundry, parking, cable television, vending and application fees.

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12.18: Improvements (09/08/04)

The appraiser must report and explain any building, health and fire code violations at the Property that are known to the appraiser and explain how the code violations affect appraised value.

The appraiser must report and explain any deferred maintenance known to the appraiser at the Property and explain how the deferred maintenance affects appraised value.

If the Appraisal is subject to the completion of repairs or replacements, the appraiser must report the appraised value before required repairs are completed ("as is" value) and report the appraised value after the required repairs are completed ("as completed") value. The appraiser must estimate the cost to complete the needed repairs.

If the Appraisal indicates the presence of any defects or conditions with respect to the Property, such as dampness, infestation or abnormal settlement, the appraiser must describe the effects of these deficiencies on the appraised value and marketability of the Property.

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12.19: Commercial space (09/08/04)

For Appraisals of Properties containing commercial space, the appraiser must include a grid containing at least three commercial rental comparables. Although the comparable commercial space may be located in a residential rental comparable, the appraiser must still provide the information on the commercial space in the grid. The grid must provide the name of the tenant and type of business, address, square feet, rent, vacancy, concessions and major lease terms of each commercial rental comparable. The appraiser must provide data that support the Property's commercial vacancy rate in relation to the overall market commercial vacancy rate, a review of the rollover risk and cost of tenant improvements to re-lease the space, and lease abstracts for each lease. Lease abstracts must contain, at a minimum, the following:

1. Term
2. Lease commencement date
3. Lease expiration date
4. Exact name of tenant
5. Base square footage
6. Core or conversion factors
7. Calculation of gross rent
8. Calculation of percentage rent
9. Calculation of expenses
10. Expense stop
11. Reimbursement of expenses
12. Cancellation clauses
13. Renewal clauses
14. Option to purchase clause

15. Subordination clause

For Properties that contain commercial space, the appraiser must segregate rental income, vacancy and collection loss, operating expenses and Replacement Reserves attributed to commercial rental space from rental income, vacancy and collection loss, operating expenses and Replacement Reserves attributed to residential rental space. If the appraiser is unable to segregate commercial space and residential rental space, the appraiser must explain why the space cannot be segregated.

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12.20: Attachments to the Appraisal (09/08/04)

The appraiser must attach the following, if applicable, to the Appraisal:

1. A copy of any current sales contracts, option contracts, contracts for deed or listings of the Property
2. A legible, certified current rent schedule provided to the appraiser by the Seller/Servicer [see Section 17.8(d)], legible Income and Expense Statements for the past two calendar or fiscal years (as applicable), if available, and legible year-to-date Income and Expense Statements for the Property, all dated within 30 days before the Appraisal
3. Color photographs of the Property's exterior, interior common areas, typical unit interiors, surrounding area, rental comparables, sales comparables and commercial rental comparables
4. Maps showing the location of the Property relative to the location of the land comparables, current rental comparables, future rental comparables and sales comparables
5. If the Property contains commercial space, legible copies of all executed commercial leases, riders and amendments
6. A complete legal description of the Property (see Section 29.3)
7. A survey of the Property, if available (see Section 29.5)
8. If the Property is subject to ground leases, a copy of all ground leases
9. Any other information that ensures the completeness of the Appraisal
10. The appraiser's qualifications and the supervising or review appraiser's qualifications

Freddie Mac Multifamily/Multifamily Seller/Servicer Guide, Volume 1/Chs. 12-15: Appraisal, Environmental and Engineering Requirements/Chapter 12: Appraiser and Appraisal Requirements/12.21: Product-specific Appraisal requirements (09/08/04)

12.21: Product-specific Appraisal requirements (09/08/04)

For additional Appraisal requirements for Multifamily Housing Bond Credit Enhancements, see Section 28.6(q).