

**Freddie Mac Single-Family Seller/Servicer Guide/Single-Family Seller/Servicer Guide, Volume 1/Chs. 39-45: Property Eligibility/Chapter 44: Appraisals, Inspections and the Property Inspection Alternative (PIA) (01/01/06)/44.1: Overview (10/09/09)**

## 44.1: Overview (10/09/09)

Changes to these requirements have been announced and will become effective on 09/01/10.

This chapter is organized by the following topics:

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The Seller should be familiar with Freddie Mac's Glossary definitions of the following terms:

- [Automated Valuation Model \(AVM\)](#)
- [Feedback Certificate](#)
- [Last Feedback Certificate](#)
- Minimum Assessment Feedback (MAF)
- Home Value Models
- Owner of Record
- Property Inspection Alternative (PIA)

For a Mortgage to be eligible for sale to Freddie Mac, it must be determined that the collateral (that is, the Mortgaged Premises) is acceptable for the transaction. This chapter details Freddie Mac's requirements for determining that the collateral is acceptable.

There are three ways to determine that the Mortgaged Premises is acceptable for the transaction:

- An appraisal — the subject property and the neighborhood are inspected by an appraiser, the value of the property is estimated by an appraiser. The Seller has underwritten the **report** and concluded the property is acceptable.
- An inspection — the subject transaction is supported by Home Value Models; the appraiser inspects the subject property and neighborhood but does not provide a value for the subject property. The Seller has **underwritten** the report and concluded that an appraisal was not required and the property is acceptable.
- PIA — the transaction is supported by Home Value Models so no appraisal or inspection of the subject property is obtained, and the value of the property is not estimated. The Seller has determined that the transaction meets the eligibility requirements of this chapter.

These documents must be on the applicable Freddie Mac form or other approved form, including exhibits and any required addenda, and must comply with all the applicable requirements in this chapter. Each of these reports is discussed in detail in this chapter. This chapter also describes the situations in which the Seller must use an appraisal and the type of appraisal form to be used, as well as the circumstances in which the Seller may use an inspection or PIA.

The Seller's regulatory agency may require an appraisal in some instances when Freddie Mac does not. Even if the provisions of this chapter permit a Mortgage to be sold to Freddie Mac with an inspection or PIA rather than an appraisal, the Seller must comply with any relevant requirements of any regulatory agencies mandating an appraisal. Additionally, the Seller may, for any other reason, obtain an appraisal of the Mortgaged Premises in lieu of an inspection or PIA.

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#### **44.1: Overview (Future effective date 09/01/10)**

These requirements will become effective on 09/01/10. View current requirements.

This chapter is organized by the following topics:

<b>Topic</b>	<b>Section(s)</b>
Overview	44.1
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Other exhibits and addenda	44.13
Final inspection and completion report	44.14
Property description and analysis	44.15
Reserved for future use	44.16-44.20
Faxing and electronically transmitting appraisal and inspection reports	44.21

The Seller should be familiar with Freddie Mac's Glossary definitions of the following terms:

- Automated Valuation Model (AVM)
- Feedback Certificate
- Last Feedback Certificate
- Minimum Assessment Feedback (MAF)
- Home Value Models
- Owner of Record
- Property Inspection Alternative (PIA)

For a Mortgage to be eligible for sale to Freddie Mac, it must be determined that the collateral (that is, the Mortgaged Premises) is acceptable for the transaction. This chapter details Freddie Mac's requirements for determining that the collateral is acceptable.

There are three ways to determine that the Mortgaged Premises is acceptable for the transaction:

- An appraisal — the subject property and the neighborhood are inspected by an appraiser, the value of the property is estimated by an appraiser. The Seller has underwritten the **report** and concluded the property is acceptable.
- An inspection — the subject transaction is supported by Home Value Models; the appraiser inspects the subject property and neighborhood but does not provide a value for the subject property. The Seller has **underwritten** the report and concluded that an appraisal was not required and the property is acceptable.
- PIA — the transaction is supported by Home Value Models so no appraisal or inspection of the subject property is obtained, and the value of the property is not estimated. The Seller has determined that the transaction meets the eligibility requirements of this chapter.

These documents must be on the applicable Freddie Mac form or other approved form, including exhibits and any required addenda, and must comply with all the applicable requirements in this chapter. Each of these reports is discussed in detail in this chapter. This chapter also describes the situations in which the Seller must use an appraisal and the type of appraisal form to be used, as well as the circumstances in which the Seller may use an inspection or PIA.

The Seller's regulatory agency may require an appraisal in some instances when Freddie Mac does not. Even if the provisions of this chapter permit a Mortgage to be sold to Freddie Mac with an inspection or PIA rather than an appraisal, the Seller must comply with any relevant requirements of any regulatory agencies mandating an appraisal. Additionally, the Seller may, for any other reason, obtain an appraisal of the Mortgaged Premises in lieu of an inspection or PIA.

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## **44.2: General property eligibility requirements (03/11/10)**

### **(a) Residential requirements**

The Mortgaged Premises must be residential. The Mortgaged Premises may be attached, detached or semi-detached dwellings. Freddie Mac does not purchase Mortgages secured by vacant land or property used primarily for agriculture, farming or commercial enterprise.

For Mortgages with Freddie Mac Settlement Dates on and after January 1, 2010, the Mortgaged Premises must:

- Be safe, sound, habitable and undamaged by fire or windstorms or other perils
- Be complete unless the requirements of Section 44.2 (b) are met
- Meet all conditions of the appraisal if an appraisal was performed and made subject to conditions, unless the requirements of Section 44.2(b) are met
- Have legal use (i.e., complies with applicable zoning requirements)
- Have legal access (ingress and egress)
- Have year round access
- Have utilities that meet community standards
- Have mechanical systems that meet community standards
- Have property insurance coverage that meets Freddie Mac requirements, and has coverage for hazards specific to the location of the property
- Not be subject to a pending legal proceeding for condemnation in whole or in part

### **(b)**

#### **Type and condition of structure**

All improvements must be completed before the sale of the Mortgage to Freddie Mac. However, a Mortgage is eligible for sale to Freddie Mac prior to the completion of improvements provided all of the following conditions are satisfied:

1. The appraiser has provided the 'as completed' value as the opinion of value.
2. The appraiser has provided a list of the incomplete items; the appraiser or a disinterested (but relevant) party has provided a cost to complete the incomplete items.

An example of a disinterested (but relevant) party is a contractor/painter who provides an estimate to paint interior walls. A relevant party includes, but is not limited to, a representative of a home improvement store or an independent contractor that performs the services needed to complete the improvements.

3. The incomplete items do not adversely affect the safety, soundness or habitability of the Mortgaged Premises.

4. The Seller determines that the improvements cannot be completed for valid reasons; **examples include, but are not limited to**, inclement weather or **temporary** shortages of building materials
5. The improvements will be completed no more than 120 days after the **Settlement Date**
6. The Mortgage is not secured by a **Manufactured Home**
7. The **cost to complete** the incomplete items **does not exceed 10%** of the **'as completed'** value of the **Mortgaged Premises**
8. The Seller has established a **completion escrow to complete the Mortgaged Premises**
9. The mortgage insurance and title insurance **will not be** impaired or adversely affected during the **completion period**
10. The Seller **has the property inspected and the individual performing the final inspection of the property must sign the completion report. The completion report must document that the property has been completed.** (See Section 44.14 for more information.)

**(c) Properties affected by disasters**

The Seller should be prepared to address property damage issues that may occur in the event of a disaster that may affect the acceptability of properties as security for Mortgages. Seller should have established procedures to inspect and recertify value, condition and marketability of properties when a major disaster or emergency occurs.

The Federal Emergency Management Agency (FEMA) announces **Presidentially** declared major disasters and emergencies, **but the declaration is usually made** after the event has already occurred. Once FEMA announces a major disaster or emergency, or **earlier when** the Seller becomes aware of a disaster, the Seller should take appropriate steps to ascertain the condition of properties in affected areas to preserve any relief of Seller representations and warranties that were granted regarding the **Mortgaged Premises**, and to minimize risk of future liability arising from a warranty violation.

For example, a Mortgage is submitted to Loan Prospector on August 1 and receives the Minimum Assessment Feedback of Form 2070 or the Property Inspection Alternative (PIA). On August 15, a tornado damages the neighborhood where the **Mortgaged Premises** is located. Whether or not the Seller is aware of the disaster (the tornado in this example), the Seller represents and warrants that at origination and delivery, the **Mortgaged Premises** is existing and is undamaged by fire, windstorm, or other perils. The Seller should take appropriate steps, including a special inspection, to determine if the **Mortgaged Premises** is damaged prior to the sale of a Mortgage to Freddie Mac.

Recommended steps:

- For a reasonable time period following a disaster, regardless of any Loan Prospector Minimum Assessment Feedback to the contrary, Seller should obtain an appraisal with an interior and exterior inspection of the subject property. The Seller should not use less comprehensive property valuation methods such as Form 2070 or PIA to originate Mortgages secured by properties located in the disaster area.
- Seller should perform special inspections of properties that may be affected to assess the degree of any damage
- Seller should re-verify property insurance coverage is adequate to protect against future loss to properties and to ensure it has been obtained or maintained adequately with respect to affected properties

- Seller should consider, in consultation with the appraiser, the impact of any revision to the contract of sale for subject properties or the impact of any termination of leases entered into prior to such disaster

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#### **44.3: General requirements for appraisals and inspections (10/09/09)**

Changes to these requirements have been announced and will become effective on 09/01/10.

##### **(a) Seller selection of appraisers and appraiser independence**

The appraisal or inspection report must be signed by an appraiser **that the Seller has** approved. A Seller may not sell a Mortgage to Freddie Mac if the appraisal or inspection report is made for anyone other than the Seller or **any third party specifically authorized by the Seller in compliance with the Home Valuation Code of Conduct (HVCC)**, provided, however, the appraisal may be made for a different lender if the Seller obtains written assurances from the other lender that the lender complied with the HVCC in connection with the origination of the Mortgage and the Seller determines that the appraisal conforms to its requirements for appraisals and is otherwise acceptable.

**The Seller must have business controls in place to ensure that the appraiser was not subject to any undue influence in performing the appraisal and providing an opinion of value.**

The appraiser must be impartial and unbiased. The appraiser may not have any present or contemplated future interest in the subject property. In addition, neither current nor future employment or compensation for performing the appraisal or inspection may be contingent on the results reported by the appraiser.

**Sellers must ensure that the individuals underwriting the appraisals and collateral are independent of loan production staff. If independence is not feasible due to the small size of the Seller's staff, the Seller must have the appropriate controls in place to assure independence.**

**With respect to Mortgages delivered to Freddie Mac on or after May 1, 2009, the Seller represents and warrants that it has adopted Exhibit 31, Home Valuation Code of Conduct, and for each conventional Mortgage that has an application date on or after May 1, 2009, the appraisal was obtained in a manner consistent with the HVCC.**

##### **(b) Seller representations and warranties regarding appraisals and inspections**

**In addition to the representations and warranties with respect to the HVCC, with respect to each appraisal or inspection, the Seller represents and warrants that:**

1. All information known to the Seller that may affect the estimate of value or marketability has been provided to the appraiser in conjunction with the appraisal or inspection request
2. It has reviewed the report and has concluded that the Mortgaged Premises is adequate security for the Mortgage, in accordance with the requirements of Section 22.2
3. The **appraisal or inspection** complies with the applicable requirements in this chapter
4. The report is of professional quality and supports all of the appraiser's assumptions, data, analyses, rationale and conclusions that were relied on in estimating the value and addressing

the marketability of the Mortgaged Premises

5. The information in the report is accurate, internally consistent, written in clearly understandable language, fully supported and sufficiently documented

Deficient appraisals or inspections will be considered a breach of the Seller's warranty as to the acceptability of the Mortgage and will subject the Seller to the remedies available to Freddie Mac. In addition to reviewing the appraisal or inspection report submitted by the Seller, Freddie Mac may make property inspections and/or other investigations to assure property eligibility and proper underwriting of the Mortgages offered for sale to and sold to Freddie Mac.

**(c) Market value definition**

An appraisal must be based on the following definition of market value:

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, 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 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 each acting in what he considers his own best interest
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, and
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

Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar-for-dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

The market value estimate of the subject property must not include value assigned to furniture or any other personal property.

**(d) Detrimental conditions**

On appraisal or inspection reports, the appraiser must note the presence of detrimental conditions, such as expansive soils, underground mines or subsidence in the immediate area of the subject property. In addition, the appraiser must note any evidence of dampness, infestation or abnormal settlement observed in the subject property and call for correction of the observed condition or professional inspections to determine the seriousness of the condition. The appraiser must also consider the effect of such conditions in estimating the subject property's market value and/or any

effect on marketability.

For any appraisal that is made subject to inspections or conditions due to detrimental conditions, the Seller must include in the Mortgage file evidence of corrective action as called for by the inspector or appraiser. **The evidence of the corrective action must be dated before the Settlement Date of the related Mortgage. Examples of corrective actions include but are not limited to an exterminator's certificate, engineer's report, or documentation of property completion. (See Section 44.14 for requirements for completion documentation.)**

**(e) Maximum financing**

Effective June 1, 2008, Section 44.3(e) is deleted.

**(f) Statement of Assumptions and Limiting Conditions, and Appraisers' Certifications**

The Statement of **Assumptions and Limiting Conditions**, **Appraiser's Certification and Supervisory Appraiser's Certification** are incorporated into each appraisal and inspection report form. Modifications or deletions to these are not permitted. However, additional certifications that do not constitute material alterations to the report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

**(g) Owner of Record**

When a new appraisal is required, the Seller must verify:

- For purchase transactions:
  - The property seller listed on the sales contract is the Owner of Record of the subject property or
  - If the transaction involves the sale of land separate from the dwelling, the property seller listed on the sales contract for the land is the Owner of Record for the land.
- For refinance transactions, the Borrower is an Owner of Record of the subject property.
- For transactions that involve the payoff of a land contract, the property seller is the vendor on the recorded land contract and the Owner of Record of the subject property; and the Borrower is a vendee on the recorded land contract.

If the property seller for purchase transactions or the Borrower for refinance transactions is not the Owner of Record, the Seller must investigate the circumstances of the transaction to ensure that the transaction is legitimate. The Seller must retain documentation evidencing the verification or legitimacy of the transaction in the Mortgage file. Such documentation may include, but is not limited to, the appraiser's analysis and conclusions in the appraisal, a property sales history report, a copy of the recorded deed, a copy of a property tax bill, or the title commitment or binder indicating the legal ownership of the property.

**(h) Automated Valuation Model (AVM)-assisted appraisals**

When performing an inspection or appraisal, the appraiser may use AVMs as a tool to develop market data or to identify potential comparable sales. In order to use an AVM, the appraiser must understand what data the model uses and how the model analyzes the data. The appraiser must determine that the results of the AVM accurately reflect the current market for the subject property. Appraisers must comply with Uniform Standards of Professional Appraisal Practice (USPAP) and *Advisory Opinion 18: Use of an Automated Valuation Model (AVM)*.

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### **44.3: General requirements for appraisals and inspections (Future effective date 09/01/10)**

These requirements will become effective on 09/01/10. View current requirements.

#### **(a) Seller selection of appraisers and appraiser independence**

The appraisal or inspection report must be signed by an appraiser that the Seller has approved. A Seller may not sell a Mortgage to Freddie Mac if the appraisal or inspection report is made for anyone other than the Seller or any third party specifically authorized by the Seller in compliance with the Home Valuation Code of Conduct (HVCC), provided, however, the appraisal may be made for a different lender if the Seller obtains written assurances from the other lender that the lender complied with the HVCC in connection with the origination of the Mortgage and the Seller determines that the appraisal conforms to its requirements for appraisals and is otherwise acceptable.

The Seller must have business controls in place to ensure that the appraiser was not subject to any undue influence in performing the appraisal and providing an opinion of value.

The appraiser must be impartial and unbiased. The appraiser may not have any present or contemplated future interest in the subject property. In addition, neither current nor future employment or compensation for performing the appraisal or inspection may be contingent on the results reported by the appraiser.

Sellers must ensure that the individuals underwriting the appraisals and collateral are independent of loan production staff. If independence is not feasible due to the small size of the Seller's staff, the Seller must have the appropriate controls in place to assure independence.

With respect to Mortgages delivered to Freddie Mac on or after **May 1, 2009**, the Seller represents and warrants that it has adopted Exhibit 31, Home Valuation Code of Conduct, and for each conventional Mortgage that has an application date on or after **May 1, 2009**, the appraisal was obtained in a manner consistent with the HVCC.

#### **(b) Seller representations and warranties regarding appraisals and inspections**

In addition to the representations and warranties with respect to the HVCC, with respect to each appraisal or inspection, the Seller represents and warrants that:

1. All information known to the Seller that may affect the estimate of value or marketability has been provided to the appraiser in conjunction with the appraisal or inspection request
2. It has reviewed the report and has concluded that the Mortgaged Premises is adequate security for the Mortgage, in accordance with the requirements of Section 22.2
3. The appraisal or inspection complies with the applicable requirements in this chapter
4. The report is of professional quality and supports all of the appraiser's assumptions, data, analyses, rationale and conclusions that were relied on in estimating the value and addressing the marketability of the Mortgaged Premises
5. The information in the report is accurate, internally consistent, written in clearly understandable

language, fully supported and sufficiently documented

Deficient appraisals or inspections will be considered a breach of the Seller's warranty as to the acceptability of the Mortgage and will subject the Seller to the remedies available to Freddie Mac. In addition to reviewing the appraisal or inspection report submitted by the Seller, Freddie Mac may make property inspections and/or other investigations to assure property eligibility and proper underwriting of the Mortgages offered for sale to and sold to Freddie Mac.

**(c) Market value definition**

An appraisal must be based on the following definition of market value:

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, 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 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 each acting in what he considers his own best interest
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, and
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

Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs which are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable since the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar-for-dollar cost of the financing or concession but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

The market value estimate of the subject property must not include value assigned to furniture or any other personal property.

**(d) Detrimental conditions**

The appraiser must note the presence of detrimental conditions, such as expansive soils, underground mines or subsidence in the immediate area of the subject property. In addition, the appraiser must note any evidence of dampness, infestation or abnormal settlement observed in the subject property and call for correction of the observed condition or professional inspections to determine the seriousness of the condition. The appraiser must also consider the effect of such conditions in estimating the subject property's market value and/or any effect on marketability.

For any appraisal that is made subject to inspections or conditions due to detrimental conditions, the Seller must include in the Mortgage file evidence of corrective action as called for by the inspector or

appraiser. The evidence of the corrective action must meet Freddie Mac requirements. (See Section 44.14 for requirements for final inspection and the completion report.)

**(e) Maximum financing**

Effective June 1, 2008, Section 44.3(e) is deleted.

**(f) Statement of Assumptions and Limiting Conditions, and Appraisers' Certifications**

The Statement of Assumptions and Limiting Conditions, Appraiser's Certification and Supervisory Appraiser's Certification are incorporated into each appraisal and inspection report form. Modifications or deletions to these are not permitted. However, additional certifications that do not constitute material alterations to the report, such as those required by law or those related to the appraiser's continuing education or membership in an appraisal organization, are permitted.

**(g) Owner of Record**

When a new appraisal is required, the Seller must verify:

- For purchase transactions:
  - The property seller listed on the sales contract is the Owner of Record of the subject property or
  - If the transaction involves the sale of land separate from the dwelling, the property seller listed on the sales contract for the land is the Owner of Record for the land.
- For refinance transactions, the Borrower is an Owner of Record of the subject property.
- For transactions that involve the payoff of a land contract, the property seller is the vendor on the recorded land contract and the Owner of Record of the subject property; and the Borrower is a vendee on the recorded land contract.

If the property seller for purchase transactions or the Borrower for refinance transactions is not the Owner of Record, the Seller must investigate the circumstances of the transaction to ensure that the transaction is legitimate. The Seller must retain documentation evidencing the verification or legitimacy of the transaction in the Mortgage file. Such documentation may include, but is not limited to, the appraiser's analysis and conclusions in the appraisal, a property sales history report, a copy of the recorded deed, a copy of a property tax bill, or the title commitment or binder indicating the legal ownership of the property.

**(h) Automated Valuation Model (AVM)-assisted appraisals**

When performing an inspection or appraisal, the appraiser may use AVMs as a tool to develop market data or to identify potential comparable sales. In order to use an AVM, the appraiser must understand what data the model uses and how the model analyzes the data. The appraiser must determine that the results of the AVM accurately reflect the current market for the subject property. Appraisers must comply with Uniform Standards of Professional Appraisal Practice (USPAP) and *Advisory Opinion 18: Use of an Automated Valuation Model (AVM)*.

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**44.4: Appraisers (10/09/09)**

Freddie Mac does not select or approve individual appraisers or appraisal management companies. An appraiser is selected and approved by the Seller. The Seller warrants that the appraisal services provided, whether by fee or staff appraisers, comply with [the Uniform Standards of Professional Appraisal Practice \(USPAP\)](#), [applicable laws](#), and the [Freddie Mac](#) requirements of this chapter.

At a minimum, the appraiser must be a [State-certified or State-licensed real estate appraiser eligible to perform appraisals in the State in which the property is located and be experienced in the appraisal of properties similar to the property being appraised or inspected.](#)

The Seller should be particularly attentive to selecting an appraiser who is knowledgeable of the subject area when ordering appraisals or inspections in central city neighborhoods and rural areas. Appraisers are more likely to use nontraditional data bases in these areas, which may be subject to complex factors influencing the value and marketability of individual properties. Appraisers who are knowledgeable in these areas should be encouraged to make extensive use of comment areas to explain market factors and the status of the market.

**(a) Representations to third parties by appraisers or appraisal management companies**

Appraisers and appraisal management companies must not make any representation to third parties as being approved by Freddie Mac.

**(b) Unacceptability of appraiser**

Freddie Mac, in its sole discretion, may at any time refuse to accept appraisals or inspections made by a particular appraiser. Once notified by Freddie Mac of the unacceptability of an appraiser, the Seller may not use that appraiser for any Mortgage submitted to Freddie Mac. [Sellers may not engage appraisers who appear on the Freddie Mac Exclusionary List.](#)

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**44.5: Information supplied to the appraiser (10/06/06)**

**(a) Information for appraisals**

The Seller warrants that the Mortgage originator provided the following information on the subject property, as applicable, to the appraiser in conjunction with all appraisal requests:

1. The complete legal description (see Section 40.1 for legal description requirements)
2. Current condominium association budgets
3. The complete sales contract (A sales contract on a new home should state the base price of the house and itemize each option.)
4. [All financing terms, financing and sales concessions granted by anyone associated with transaction, and any gifts, buydowns and down payment assistance provided by anyone on behalf of the Borrowers, whether for purchase or refinance transactions](#)
5. Income and expense statements, property leases and a list of nonrealty items that are included in the transaction, and
6. Any other information that the Seller knows that may affect the value or marketability of the property. This information includes an affiliation between the property seller and purchaser,

proposed changes to the use of the property, and the presence of any Contaminated Site or Hazardous Substance affecting the property or the neighborhood in which the property is located.

**(b) Information for inspections**

The Seller warrants that the following information on the subject property, as applicable, was provided to the appraiser in conjunction with all inspection requests:

1. The complete legal description (see Section 40.1 for legal description requirements)
2. Any other information that the Seller knows that may affect the value or marketability of the property. This information includes an affiliation between the property seller and purchaser, proposed changes to the use of the property, and the presence of any Contaminated Site or Hazardous Substance affecting the property or the neighborhood in which the property is located.

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**44.6: Unacceptable appraisal or inspection practices (10/09/09)**

**(a) Unacceptable appraisal practices**

The following are unacceptable appraisal practices. Evidence of any of the practices listed in this section will be a breach of Seller's warranty as to the professional quality of the appraisal.

1. Inclusion of inaccurate or incomplete data about the subject property, the neighborhood or any comparable sale used in the appraisal analysis
2. Failure to report and/or consider any apparent factor that has an adverse effect on the value and/or marketability of the subject property
3. Consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect
4. Reliance in the appraisal analysis on comparable sales that were not personally inspected by the appraiser. A personal inspection requires at least a visual inspection of the exterior of the comparable property
5. Reliance in any appraisal analysis on inappropriate comparable sales or the failure to use comparable sales that are more similar to or nearer to the subject property without adequate explanation
6. Use of comparable sales data provided by interested parties to the transaction, without verification by a disinterested party
7. The use of inordinate adjustments for differences between the subject property and the comparable sales that do not reflect the market's reaction to such differences, or the failure to make proper adjustments when they are clearly necessary
8. Consideration of the race, color, religion, sex, handicap, familial status or national origin of 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 (see also Section 6.2 for equal

opportunity compliance requirements, and Section 44.15(c) for prohibition against discrimination in appraising)

9. Development of value and/or marketability conclusions that are not supported by available market data
10. The appraiser's or supervisory appraiser's breach of a certification or Statement of Assumptions and Limiting Conditions or comparable statements as found on any Freddie Mac approved appraisal report form or addendum

See Section 44.21 for unacceptable appraisal and inspection practices when using Electronic Signatures and using and maintaining Electronic Records.

**(b) Unacceptable inspection practices**

The following are unacceptable inspection practices. Evidence of any of the practices listed in this section will be a breach of Seller's warranty as to the professional quality of the inspection:

1. Inclusion of inaccurate or incomplete data about the subject property and/or the neighborhood
2. Failure to report and/or consider any apparent factor that has an adverse effect on the condition and/or marketability of the subject property
3. Consideration of the age or location of a dwelling or the age of the neighborhood or census tract where the dwelling is located in a manner that has a discriminatory effect
4. Consideration of the race, color, religion, sex, handicap, familial status or national origin of 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 (see also Section 6.2 for equal opportunity compliance requirements and Section 44.15(c) for prohibition against discrimination in appraising)
5. Development of marketability conclusions that are not supported by available market data
6. The appraiser's breach of a certification on an inspection report or addendum

See Section 44.21 for unacceptable appraisal and inspection practices when using Electronic Signatures and using and maintaining Electronic Records.

**Freddie Mac Single-Family Seller/Servicer Guide/Single-Family Seller/Servicer Guide, Volume 1/Chs. 39-45: Property Eligibility/Chapter 44: Appraisals, Inspections and the Property Inspection Alternative (PIA) (01/01/06)/44.7: Overview of appraisals and inspections and the Property Inspection Alternative (PIA) (03/11/10)**

**44.7: Overview of appraisals and inspections and the Property Inspection Alternative (PIA) (03/11/10)**

To evidence that the Mortgaged Premises is acceptable for the transaction, each Mortgage file must contain one of the following reports:

- A written appraisal report
- A written inspection report
- A print-out of the Last Feedback Certificate with the Minimum Assessment Feedback of Form 2070 or PIA

Whether the Seller should use an appraisal, an inspection or PIA depends on:

- The characteristics of the transaction
- The type of property securing the Mortgage, and
- Whether the Mortgage is a Loan Prospector® Mortgage or a Non-Loan Prospector Mortgage

The Seller may not use tax-assessed valuations or Broker Price Opinions (BPOs) to determine value.

**(a) Appraisal and inspection report forms by property type and inspection type**

The following table shows the report forms and the inspection types applicable for each property and inspection type. Reports with an exterior-only inspection may be used only for Loan Prospector Mortgages. PIA requires no inspection.

Appraisal and Inspection Report Forms by Property Type and Inspection Type		
Property Type	Form Number	Type of Inspection
1-unit property Unit in a PUD or Detached Condominium Project	Form 70	Interior and exterior inspection
	Form 2055 or 2070	Exterior-only inspection
Condominium Unit (Attached or Detached)	Form 465	Interior and exterior inspection
	Form 466 or 2070	Exterior-only inspection
Manufactured Home	Form 70B	Interior and exterior inspection
2- to 4-unit property	Form 72	Interior and exterior inspection

**Figure 44.1, Appraisal and Inspection Report Forms by Property Type and Inspection Type**

**(b) Appraiser inspection of the subject property**

There are two types of appraiser inspection of the subject property:

- **Interior and exterior inspection:** In an interior and on-site exterior inspection, the appraiser is expected to make reasonable observations of interior and exterior property conditions that are immediately apparent and noticeable during a typical site visit. This includes consideration of the topography, water drainage, restrictions and encroachments, off-site improvements, gross living area and floor plan, condition, and conformity to the neighborhood.
- **Exterior-only inspection:** An exterior-only inspection is considered a drive-by inspection of the subject property and/or comparable sales. The appraiser is expected to confirm that the subject property exists and appears to conform to the information available in public records.

An exterior-only inspection may have to be upgraded to an appraisal with an interior and exterior inspection if there is not sufficient information available about the subject property to complete a credible report, and/or if the improvements cannot be seen from the street. See Section 44.9(b) and 44.9(f) for upgrade requirements.

An appraiser's inspection of the subject property is completed for the use of the lender/client in determining property condition, marketability, value and eligibility. The purpose of the appraiser inspection is to gather information about the characteristics of the subject property that are relevant to its value, and to report on its apparent soundness and habitability as readily observed by the appraiser or as found in available data sources such as public records, MLS, newspaper reports or

conversations with agents. An inspection conducted by an appraiser is not the equivalent of an inspection by a licensed professional such as a structural engineer, home inspector, real estate inspector, pest inspector, or well inspector.

An appraiser's observations and research must be thorough enough to properly develop the appraisal and adequately report the characteristics that reflect value.

If an appraiser observes conditions that require further investigation, the appraiser must make the appraisal subject to an inspection by an appropriate, licensed professional. Conditions that may require such inspections include observations of severe cracks in foundations or walls, active infestation, significant water damage and/or wet basements or crawl spaces, or unusual odors from a water source. Any conditions affecting safety, structural soundness or habitability must be repaired before closing.

If the appraisal is made subject to an inspection, the Seller must consult the services of an expert, a licensed or certified professional or another person trained in the particular field of concern.

**(c) Changes to appraisal and inspection report forms**

With respect to each appraisal or inspection, the appraiser must comply with the instructions and guidelines set forth in the form. Names, addresses or logos may be added to any of the forms, and the forms may be printed in any color ink. Forms generated by software programs that have expandability features to allow additional space in any of the "comments" areas are acceptable. However, the page sequence, format and content of the forms should not be altered in any way.

**(d) Age of valuation and other collateral documentation**

Valuation refers to the process of determining the value of a property. Valuation includes an appraisal and the results of Freddie Mac's Home Value Models. Use of the term 'collateral documentation' or 'collateral assessment' refers to appraisals, appraiser inspections, and any supporting services as described later in this section.

**1. Age of appraisals as of the Note Date**

An appraisal is effective for 120 days.

- If the effective date of the appraisal is more than 120 days before the Note Date, the appraisal is outdated and a new appraisal with at least an exterior-only inspection is required. See Section 44.7(e) for additional information.

For the purpose of this chapter, the Note Date is equivalent to the Effective Date of Permanent Financing when the Mortgage is sold to Freddie Mac as a Newly-Constructed Home.

- If the effective date of the underlying appraisal is more than 12 months before the Note Date, the appraisal is expired. (The underlying appraisal is the appraisal being updated.) A new appraisal is required and the new appraisal must not incorporate any prior appraisal.
- An appraisal update is a new appraisal; an appraisal update with an exterior-only inspection is acceptable if the effective date of the underlying appraisal is no more than 12 months prior to the effective date of the new appraisal.
- If the appraisal provides an 'as completed' or 'as repaired' opinion of value and a new appraisal is required before the Note Date, an appraisal with an interior and exterior inspection and updated photographs is required. The new appraisal can be used to

confirm value and can also be used to document that the property is complete.

## 2. Home Value Models

- **Form 2070**

An inspection ( Form 2070) is effective for 120 days. If the effective date of the inspection is more than 120 days before the Note Date, the inspection is expired and a new inspection must be performed. See Section 44.7(e) for additional information.

- **Property Inspection Alternative (PIA)**

For Mortgages originated using PIA, the Minimum Assessment Feedback (MAF) is valid for 120 days. If the effective date of the Feedback Certificate is more than 120 days before the Note Date, the MAF is expired and the transaction must be resubmitted to Loan Prospector®. See Section 44.7(e) for additional information.

## 3. Summary of requirements for age of collateral assessment documentation

The following chart summarizes the requirements for the age of collateral documentation requirements as of the effective date of the appraisal, appraiser inspection or LP Feedback Certificate:

Assessment Type	Date Requirement		
	Current	Outdated	Expired
Appraisal	≤ 120 days after the effective date of appraisal	> 120 days after the effective date of appraisal	> 12 months after the effective date of appraisal
Form 2070 and PIA	≤ 120 days after the date of the report	Not applicable	> 120 days after the date of the report

## 4. Age of supporting collateral documentation as of the Note Date

Other collateral documentation provides information about the property but does not provide a value. For the purposes of this section, collateral documentation does not include an appraiser inspection of the property. Examples of supporting collateral documentation include and are not limited to a property inspection report completed by a licensed home inspector (not an appraiser), photographs, well reports, roof certifications, or pest inspection reports.

Other than the appraisal, appraiser inspection, or LP Feedback Certificate, collateral documentation does not have to be updated unless the documentation does not reflect the current status of the property as of the Settlement Date. For example:

- Updated photographs are required if the photographs already provided do not reflect the current condition of the dwelling, or if there has been construction, renovation, rehabilitation or any upgrades since the initial photographs were provided, and the changes affect value, condition or marketability.
- A structural engineer's report would not have to be updated unless the property was adversely affected by a disaster after the initial appraisal was performed, and the structural soundness of the dwelling is uncertain.

## 5.

### Appraisal requirements as of the Settlement Date

If the Settlement Date is more than 120 days after the Note Date, the Seller must obtain a new appraisal. See Section 22.6 (c) for more information.

Regardless of the effective date of the appraisal (or the Last Feedback Certificate if the Seller obtained an appraiser inspection or used PIA), the Seller must obtain a new appraisal and determine whether the Mortgage is eligible for sale to Freddie Mac if:

- The Seller becomes aware of any changes to the Mortgaged Premises that may have an adverse impact to its value, condition or marketability, and
- The adverse changes occurred after the effective date of the appraisal (or Last Feedback Certificate) but prior to the Settlement Date

**(e) Loan Prospector Mortgages: Appraisal update requirements**

If the Seller resubmits a Mortgage to Loan Prospector and there is no change to the subject property, including no change to the property address entered into LP, the following chart indicates what the Seller must provide based on the original MAF and the new MAF. In any event, if the Seller did not obtain the assessment required by the original MAF, the Seller must obtain the assessment required by the Last Feedback Certificate.

Original Loan Prospector MAF	New Loan Prospector MAF	Minimum Assessment Level Needed
Appraisal with an interior and exterior inspection	Appraisal with an interior and exterior inspection	Appraisal update with an exterior-only inspection
	Appraisal with an exterior-only inspection	Appraisal update with an exterior-only inspection
	Form 2070 or PIA	Appraisal update with an exterior-only inspection
Appraisal with an exterior-only inspection	Appraisal with an interior and exterior inspection	Appraisal update with an interior and exterior inspection
	Appraisal with an exterior-only inspection	Appraisal update with an exterior-only inspection
	Form 2070 or PIA	Appraisal update with an exterior-only inspection
Form 2070 or PIA	Appraisal with an interior and exterior inspection	Appraisal with an interior and exterior inspection
	Appraisal with an exterior-only inspection	Appraisal with an exterior-only inspection
	Form 2070 or PIA	New Form 2070 or PIA

**(f) Non-Loan Prospector Mortgage: appraisal update requirements**

If the Mortgage is a Non-Loan Prospector Mortgage, an appraisal with an exterior-only inspection is required in order to update the original appraisal. The update must meet all the other requirements of this section.

**(g)**

**Appraisal update scope of work**

When performing an appraisal update, the appraiser must comply with USPAP and *Advisory Opinion 3, Update of a Prior Assignment*. The appraiser is expected to research, verify and analyze current market data, and to perform at least an exterior-only (drive-by) inspection of the subject property.

The original appraiser should perform the appraisal update; however, the Seller may select another Seller-approved appraiser who is qualified to perform the appraisal.

When an appraisal update is performed, an inspection is required for appraisal conditions or changes to the subject property that may have occurred after the effective date of the underlying appraisal. Appraisal conditions include 'as completed' or 'as repaired' opinions of value.

The type of inspection required is dependent on the nature of the appraisal conditions or the changes to the subject property.

- If the underlying appraisal provides an 'as is' value, an interior inspection is not required unless the Seller is aware of any changes to the Mortgaged Premises that would have an adverse effect on condition and marketability.
- If the underlying appraisal is subject to completion per plans and specifications, an interior and exterior inspection is required.

If the underlying appraisal is subject to repairs that affect safety, soundness or habitability, an interior and exterior inspection is required if repairs are required for the interior of the dwelling. Otherwise, an exterior-only inspection is required.

#### (h) Reporting the results of an appraisal update

The appraiser may use the following to report the results of an appraisal update:

- If there are no changes in value, the appraiser may use either:
  - Form 442, Appraisal Update and/or Completion Report, or
  - Any other Freddie Mac appraisal report form appropriate for the property type and inspection type.

For example, if the appraiser performs an exterior-only inspection of a Condominium Unit, the results could be reported on Form 442, Appraisal Update and/or Completion Report, or Form 466, Exterior-Only Inspection Individual Condominium Unit Appraisal Report.

- If there are changes in the market since the prior appraisal or the appraiser determines that one or more different comparable sale is more appropriate, the appraiser must report the results of the appraisal update on the Freddie Mac appraisal report form appropriate for the property type and inspection type. The appraiser may not use Form 442.

The level of detail for the update may be significantly less than that required for the original, prior report. The appraiser performing the update will complete the subject portion of the report, provide information about any changes in the market, and explicitly state the portions of the prior report that are incorporated into the update. The appraiser may also provide additional market information to indicate that there have been no market changes. The appraiser must sign the report and provide the information required with the signature. The appraiser also has the option of providing an entirely new report if warranted by changes in the market since the effective date of the prior report.

If the appraiser determines that the subject of a refinance transaction is newly listed for sale, the appraiser must update the analysis in the contract section of the report and indicate that the subject property is listed for sale. The Seller must take appropriate action to address the change.

#### (i)

##### Exhibit requirements for appraisal updates

If existing photographs accurately represent the subject property and comparable sales, new photographs of the subject property and comparable sales, as applicable, are not required. Additional photographs of any factors that affect the marketability or value of the subject property should be provided if not already part of the report being updated.

Photographs that meet the requirements of Section 44.12(a) are required for any new comparable sales.

**(j) Adverse changes to the property before the Note Date**

If the value of the subject property has declined, the Seller must adjust the terms of the transaction as appropriate. Loan Prospector Mortgages must be resubmitted to Loan Prospector if required by Section 2.2.1(k).

**(k) Appraisal update and completion certificate**

If the original appraisal was made subject to completion per plans and specifications or subject to repairs, and the original appraisal is outdated, the Seller may obtain an appraisal update that also acts as a completion certificate. If the update acts as both an update and a completion certificate, the appraiser must state that the "subject to" conditions of the prior report have been met.

An interior and exterior inspection is required if the dwelling was incomplete, not structurally sound, or not habitable as of the effective date of the underlying appraisal. Updated photographs are required if the photographs provided as exhibits to the underlying appraisal do not reflect the condition and marketability of the dwelling as of the Note Date.

See Section 44.14 for information about documentation of completion.

**(l) Re-use of an unexpired appraisal for a subsequent transaction**

When an appraisal is required for a subsequent transaction secured by the subject property, the prior appraisal may be re-used if an appraisal update is obtained and all the requirements of this section are met.

**1. Borrower requirements when re-using an unexpired appraisal**

The Borrowers on the new transaction must be the Borrowers on the prior transaction.

The only exception is in the event of a divorce or legal separation. The Borrower for the new transaction must be one of the Borrowers on the prior transaction, and the file must document that the Borrower for the new transaction obtained the property through a divorce or legal separation.

**2. Property eligibility for re-use of an unexpired appraisal**

Since the effective date of the prior appraisal, the subject property must not have undergone any substantial rehabilitation or renovation or have been affected by disaster to the extent that the improvement or deterioration of the property would affect marketability or market value.

**3. The new transaction when re-using an unexpired appraisal**

The new transaction may not:

- Be a purchase transaction

- Be a cash-out refinance transaction
- Pay off any secondary financing

#### 4. Appraisal requirements for re-use of an unexpired appraisal

The appraisal from the prior transaction must meet all the following requirements:

- The effective date of the appraisal from the prior transaction must not be more than 12 months prior to the Note Date of the subsequent transaction
- The lender/client is the Seller or a third party specifically authorized by the Seller in compliance with the Home Valuation Code of Conduct per Section 44.3(a)

The appraisal update must meet all the following requirements:

- The update and the report must meet the requirements of USPAP and *Advisory Opinion 3, Update of a Prior Assignment*, including the reference to the appraisal being incorporated into the update as applicable
- The update must meet the requirements of Chapter 44
- The update must meet the inspection requirements for the subsequent transaction (see below)

The report of the appraisal update must meet both the following requirements:

- The report must reflect the new transaction (e.g., the current Borrowers, the appropriate transaction type, owner of record, lender/client)
- The results of the update must be reported on the appropriate report form for the type of property and inspection performed (e.g., Form 2055, Exterior-Only Inspection Residential Appraisal Report, March 2005)

#### 5. Appraiser inspection levels for re-use of an unexpired appraisal

If the prior appraisal included an interior and exterior inspection, an appraisal update with an exterior-only inspection is typically required for the new transaction. Except as stated in the next sentence, this applies even if the new transaction requires an interior and exterior inspection. If the appraiser determines that there has been a change to the marketability of the subject property, the appraiser is required to perform an interior and exterior inspection. The Seller may upgrade the inspection to an interior and exterior inspection at the Seller's discretion.

If the prior appraisal included an exterior-only inspection and the new transaction requires an interior and exterior inspection, an appraisal update with an interior and exterior inspection is required.

#### 6. Mortgage file documentation when re-using an unexpired appraisal

The Mortgage file must contain the report of the appraisal update and legible copies of the prior appraisal being incorporated into the update. Copies of all photographs must be clear and legible.

(m)

#### Use of most current value

If a Seller obtains a new appraisal, including an appraisal update, prior to the Settlement Date, the Seller must use that value for underwriting the Mortgage and determining the value of the Mortgaged Premises per Section 23.1, and must deliver that appraised value to Freddie Mac.

**(n) Mortgage file documentation**

Copies of all collateral assessments obtained for the subject transaction must be retained in the Mortgage file and provided to Freddie Mac upon request.

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**44.8: Loan Prospector® Minimum Assessment Feedback (10/09/09)**

For Loan Prospector Mortgages, the Minimum Assessment Feedback will advise the Seller of the minimum level of appraisal or inspection necessary, if any. The Seller may obtain a more comprehensive appraisal or inspection than that specified by the Minimum Assessment Feedback.

**Freddie Mac Single-Family Seller/Servicer Guide/Single-Family Seller/Servicer Guide, Volume 1/Chs. 39-45: Property Eligibility/Chapter 44: Appraisals, Inspections and the Property Inspection Alternative (PIA) (01/01/06)/44.9: Appraisal and inspection report forms and the Property Inspection Alternative (PIA) (03/11/10)**

**44.9: Appraisal and inspection report forms and the Property Inspection Alternative (PIA) (03/11/10)**

This section lists the appraisal report forms that Freddie Mac has approved. See Sections 44.12 and 44.13 for information about appraisal exhibits and addenda.

**(a) Form 70, Uniform Residential Appraisal Report**

Form 70 is designed to report the results of an appraisal of a 1-unit property, including a unit in a PUD or a 1-unit property with an accessory unit. It may also be used for a unit in a Detached Condominium Project if the appraiser includes information about the project and its condition. The form may not be used for an appraisal of a Manufactured Home or a unit in an attached Condominium Project. An interior and exterior inspection of the subject property is required. Form 70 may be used for Loan Prospector® and Non-Loan Prospector Mortgages.

**(b) Form 2055, Exterior-Only Inspection Residential Appraisal Report**

Form 2055 is designed to report the results of an appraisal of a 1-unit property, including a unit in a PUD or a 1-unit property with an accessory unit. It may also be used for a unit in a Detached Condominium Project if the appraiser includes information about the project and its condition. The form may not be used for an appraisal of a Manufactured Home or a unit in an attached Condominium Project. An exterior-only inspection of the subject property is required. Form 2055 may be used for Loan Prospector Mortgages when an exterior-only inspection of a single-family property is allowed.

**Form 2055 upgrade requirements**

When the Feedback Certificate indicates the Minimum Assessment Feedback of Form 2055, the appraiser must upgrade to a Form 70 when one or more of the following conditions exist:

- The appraiser cannot obtain sufficient information about both the interior and exterior physical characteristics of the subject property from third-party data sources in order to develop a credible appraisal
- The appraiser cannot reconcile all significant discrepancies (e.g., size, condition, etc.) among available data sources
- The appraiser's exterior inspection does not provide sufficient information to develop a reliable appraisal, including the inability to view the property improvements from the street
- The subject property is new construction and has not yet been occupied
- The subject property is undergoing renovation or rehabilitation
- The data sources used to develop the appraisal (such as the sales contract for purchase transactions) indicate the presence of physical deficiencies or an adverse condition, or the appraiser observes apparent physical deficiencies or adverse property conditions during the exterior property inspection

**(c) Form 70B, Manufactured Home Appraisal Report**

Form 70B, Manufactured Home Appraisal Report, is designed to report an appraisal of a one-unit Manufactured Home, including a Manufactured Home in a Planned Unit Development (PUD). A Manufactured Home located in a Condominium Project requires the appraiser to inspect the project and complete the project information section of the Form 465, Individual Condominium Unit Appraisal Report, and attach it as an addendum to Form 70B. The Manufactured Home Appraisal Report is also designed to report an appraisal of a one-unit Manufactured Home that is located in a cooperative project; however, Mortgages secured by cooperatives are not eligible for sale to Freddie Mac.

**(d) Form 72, Small Residential Income Property Appraisal Report**

Form 72 is designed to report the appraisal results for a 2- to 4-unit property. An interior and exterior inspection of the subject property is required. Form 72 may be used for Loan Prospector and Non-Loan Prospector Mortgages.

**(e) Form 465, Individual Condominium Unit Appraisal Report**

Form 465 is designed to report the results of an appraisal of a 1-unit property in a Condominium Project, whether attached or detached. An interior and exterior inspection of the subject property is required. Form 465 may be used for Loan Prospector and Non-Loan Prospector Mortgages.

**(f) Form 466, Exterior-Only Inspection Individual Condominium Unit Appraisal Report**

Form 466 is designed to report the results of an appraisal of a unit in a Condominium Project, whether attached or detached. An exterior-only inspection of the subject property is required. Form 466 may be used for Loan Prospector Mortgages when an exterior-only inspection of a Condominium Unit is allowed.

**Form 466 upgrade requirements**

When the Feedback Certificate indicates a Minimum Assessment Feedback of Form 466, the appraiser must upgrade to a Form 465 when one or more of the following conditions exists:

- The appraiser cannot obtain sufficient information about both the interior and exterior physical

characteristics of the subject property from third-party data sources in order to develop a reliable appraisal

- The appraiser cannot reconcile all significant discrepancies (e.g., size, condition, etc.) among available data sources
- The appraiser's exterior inspection does not provide sufficient information to develop a credible appraisal, including the inability to view the property improvements from the street
- The subject property is new construction and has not yet been occupied
- The subject property is undergoing renovation or rehabilitation
- The data sources used to develop the appraisal (including the Purchase Contract) indicate the presence of physical deficiencies or an adverse condition, or the appraiser observes apparent physical deficiencies or adverse property conditions during the exterior property inspection

### (g) Home Value Models

When Freddie Mac's Home Value Models support an eligible transaction, the Feedback Certificate indicates a Minimum Assessment Feedback of Form 2070 or PIA. The Seller may choose to obtain an inspection with an exterior-only inspection, or PIA with no appraisal or inspection.

The provisions of Section 44.9(g) are Discretionary Provisions under Section 12.13 and Exhibit 26, Discretionary Provisions.

#### 1. Form 2070, Loan Prospector® Condition and Marketability Report

Form 2070 is an appraiser-completed inspection used in conjunction with Freddie Mac's Home Value Models, and may be used only with Loan Prospector Mortgages. It is designed to report the condition and marketability of a 1-unit property. Because the appraiser provides no estimate of value, the inspection is not considered an appraisal. Form 2070 is completed with an exterior-only inspection. The Seller may substitute Fannie Mae Form 2075 when the Last Feedback Certificate indicates a Minimum Assessment Feedback of Form 2070 or PIA. **Form 71 is not required for Mortgages originated using a Form 2070 or Fannie Mae Form 2075.**

#### Form 2070 upgrade requirements

The appraiser must upgrade from an exterior-only inspection to an appraisal with an interior and exterior inspection if:

- The appraiser is unable to adequately view the subject property from the street
- The appraiser observes any factor that may have an adverse effect on the marketability of the subject property
- The quality or condition of the property appears unacceptable to the typical purchaser in the area in which the subject property is located
- The Condition and Marketability Factors section of the Form 2070 indicates such an upgrade is required

When the Fannie Mae Form 2075 is used, the appraiser must upgrade to an appraisal as stated in Fannie Mae's requirements governing the use of the Form 2075.

The Seller must comply with the delivery requirements set forth in Section 17.34 for Mortgages

originated with a Form 2070.

## 2. Property Inspection Alternative (PIA)

When the Feedback Certificate indicates a Minimum Assessment Feedback of Form 2070 or PIA, the Seller may choose to obtain no appraisal or inspection of the subject property. PIA may be used only for Loan Prospector Mortgages. A print out of the Last Feedback Certificate with the Minimum Assessment Feedback of Form 2070 or PIA must be retained in the Mortgage file. Form 71 is not required for Mortgages originated using a PIA.

- To be eligible for PIA, the transaction must meet all the following requirements:
  - The Mortgaged Premises must be owned in fee simple; leaseholds are not eligible
  - The Mortgaged Premises must be fully completed and occupied as a residence as of the Note Date; escrow accounts for incomplete items as provided in Section 44.2 (b) are not allowed
  - The Mortgaged Premises must not be undergoing rehabilitation or renovation
  - No appraisal or inspection has been performed
  - The Seller is not aware of and could not have been aware of any conditions that would adversely affect the market value, condition or marketability of the Mortgaged Premises
  - The Borrower must not be affiliated or related in any way with the builder, developer, or seller of the Mortgaged Premises
- The following are not eligible for PIA:
  - Mortgages secured by Manufactured Homes
  - Mortgages secured by dwellings on leasehold estates
  - Seasoned Mortgages or Seasoned Mortgages for Newly Constructed Homes\*
  - Mortgages having the potential of negative amortization
  - A-minus Mortgages
  - Mortgages for Newly Constructed Homes
  - Initial Interest<sup>SM</sup> Mortgages\*\*

\*Effective January 1, 2011, the definition of Seasoned Mortgage for a Newly Constructed Home is deleted from the Guide. Refer to the definition of Seasoned Mortgage.

\*\*Initial Interest Mortgages and other interest only Mortgages with applications dated on or after June 13, 2010, and/or Settlement Dates on or after September 1, 2010 are ineligible for delivery.

- Upgrade requirements for PIA

A Mortgage is not eligible for PIA and the Seller must obtain an appraisal report with an interior and exterior inspection if:

- There is a home inspection report or other information in the Mortgage file that indicates the presence of adverse condition and/or marketability factors
- The Seller is aware of the presence of any Contaminated Site or Hazardous Substance affecting the property or the neighborhood in which the property is located
- Delivery requirements for PIA
  - The Seller must comply with the conversion and delivery requirements set forth in Section 17.34
  - The Seller must pay a postsettlement delivery fee (delivery fee) in an amount indicated in Exhibit 19, Postsettlement Delivery Fees. Delivery fees are paid in accordance with the delivery fee provisions outlined in Section 17.2.

**(h) Appraisal review reports**

Two report forms are available for use when a Seller requests a review of an appraisal:

- Form 1032, One-Unit Residential Appraisal Field Review Report, for 1-unit properties
- Form 1072, Two- to Four-Unit Residential Appraisal Field Review Report, for 2- to 4-unit properties

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**44.10: Borrower disclosure for inspections and the Property Inspection Alternative (PIA) (10/09/09)**

For purchase money Mortgages originated using the Form 2070, Loan Prospector® Condition and Marketability Report, or PIA in lieu of an appraisal of the Mortgaged Premises, the Seller must, in connection with the origination, provide the Borrower with Freddie Mac Form 1149, Notice About Appraisal of Your Property, or some other substantially similar notice.

The Borrower must sign the notice and the Seller must maintain a copy of the signed notice in the Mortgage file.

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**44.11: Seller representations and warranties regarding the Mortgaged Premises (03/11/10)**

For Mortgages sold to Freddie Mac, Sellers represent and warrant the value, condition, and marketability of the Mortgaged Premises except as stated in this section.

**(a) Seller representations and warranties**

As of the Settlement Date, the Seller makes the following representations and warranties:

- **Value Warranty**

The Seller represents and warrants that the value of the Mortgaged Premises is at least equal to the appraiser's opinion of value, and that the value of the Mortgaged Premises has not declined since the effective date of the appraisal.

- **Condition Warranty**

The Seller represents and warrants that the Mortgaged Premises is safe, habitable and structurally sound.

- **Marketability Warranty**

The Seller represents and warrants that the Mortgaged Premises is acceptable to typical purchasers in the market in which the property is located.

**(b) Relief from Seller representations and warranties regarding the Mortgaged Premises for Loan Prospector® Mortgages**

For certain Loan Prospector Mortgages, Freddie Mac relieves the Seller of representations and warranties regarding the Mortgaged Premises that are typically required of a Seller selling the Mortgage to Freddie Mac. The terms and requirements for representation and warranty relief are set forth in this section.

Relief from Seller representations and warranties regarding the Mortgaged Premises is subject to all of the following:

- The Mortgage is a Loan Prospector Mortgage meeting the requirements of Section 2.2.1 and other applicable sections of the Guide
- The Mortgage is an Accept Mortgage
- All data and information entered into Loan Prospector and on which the Last Feedback Certificate was based were true, complete and accurate, and remained unchanged as of the closing date of the Mortgage
- The property address on the Last Feedback Certificate is a valid address for the Mortgaged Premises
- The appraisal, inspection or Property Inspection Alternative (PIA) as applicable, meets the requirements of this chapter
- For any Mortgage originated using PIA, Form 2070 or an appraisal with an exterior-only inspection, the Seller represents and warrants the subject property has been occupied as a residence, is an existing building, and is not undergoing rehabilitation or renovation
- The Seller complies with the Minimum Assessment Feedback on the Last Feedback Certificate and all other representations and warranties in the Guide including, but not limited to:
  - Section 22.20, No circumstances adversely affecting value of Mortgage
  - Section 44.2(b), Type and condition of structure

- Chapter 41, Special Warranties for Leasehold Estates
- Chapter 42, Special Warranties for Condominiums
- Chapter 43, Special Warranties for **Planned Unit Developments and**
- Chapter 44, Appraisals, inspections and the **Property Inspection Alternative (PIA)**
- The Mortgage is not a Seasoned Mortgage, **Seasoned Mortgage for a Newly Constructed Home**, Seller-Owned Converted Mortgage, or Seller-Owned Modified Mortgage\*
- The Mortgage meets the eligibility requirements in Seller's Purchase Documents
- The Seller delivers the Mortgage in accordance with the requirements of Chapter 17, including special characteristics code(s), as applicable
- The Mortgage is not originated based on fraudulent and/or misrepresented information and/or documentation
- **The Settlement Date is no more than 120 days after the Note Date**

\*Effective January 1, 2011, the definition of **Seasoned Mortgage for a Newly Constructed Home** is deleted from the Guide. Refer to the definition of **Seasoned Mortgage**.

**(c) Relief from Seller representations and warranties for interior condition**

The Seller is relieved of representations and warranties for the interior condition of the Mortgaged Premises that the appraiser cannot identify from an exterior-only inspection or that were not apparent based on the typical data sources available to the appraiser, if the Mortgage meets the requirements set forth in Section 44.11(b) and:

- The Minimum Assessment Feedback on the Last Feedback Certificate specifies an appraisal with an exterior-only inspection or a Form 2070
- No appraisal or inspection with interior inspection of the Mortgaged Premises was performed
- **The Settlement Date is no more than 120 days after the Note Date**

**(d) Relief from Seller representations and warranties for value**

The Seller is relieved of representations and warranties for value of the Mortgaged Premises if the Mortgage meets the requirements set forth in Section 44.11(b) and:

- The Minimum Assessment Feedback on the Last Feedback Certificate indicates that Home Value Models support the transaction and the Mortgage is eligible for Form 2070 or PIA, **and a Form 2070 inspection was performed**
- No appraisal of the Mortgaged Premises was performed
- **The Settlement Date is no more than 120 days after the Note Date**

**(e) Relief from Seller representations and warranties for value, interior condition, exterior condition and marketability**

The Seller is relieved of representations and warranties for value, interior condition, exterior condition and marketability of the Mortgaged Premises for the life of the Mortgage if the Mortgage meets the

requirements set forth in Section 44.11 (b) and:

- The Minimum Assessment Feedback on the Last Feedback Certificate indicates that Home Value Models support the transaction and the Mortgage is eligible for Form 2070 or PIA, and the Seller chose to originate the Mortgage using PIA
- No appraisal of the Mortgaged Premises was performed
- No inspection of the Mortgaged Premises was performed
- **The Settlement Date is no more than 120 days after the Note Date**

**(f) Other Seller representations and warranties**

Regardless of any relief of Seller representations and warranties regarding the Mortgaged Premises, Seller is not relieved of representations and warranties for:

- Chapter 41, Special Warranties for Leasehold Estates
- Chapter 42, Special Warranties for Condominiums
- Chapter 43, Special Warranties for **Planned Unit Developments**
- Section 44.2, **General property eligibility requirements**
- Section 22.20, No Circumstances Adversely Affecting Value of Mortgage
- Section 22.23, Inclusionary Zoning
- Section 22.24, Purchase Requirements for Mortgages Secured by Nonrestricted Units
- Section 22.25, Purchase Requirements for Mortgages Secured by Restricted Units

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**44.12: Required exhibits and addenda (10/09/09)**

Each appraisal or inspection report must include **at least the exhibits required for the assessment type. The exhibits must meet the requirements provided** in this section.

**(a) Exhibit requirements**

**1. Photographs**

Photographs must be clear and may be either in color or black and white. They must be original photographs, electronic images or facsimiles that are illustrative of the property. The photographs must be clear, appropriately identified and must clearly show the completed improvements or any conditions that have a material effect on the market value or marketability of the subject property.

- If black-and-white photographs of the subject property are used, the appraiser must have noted in the report any information that would have appeared in color photographs but is not apparent in black-and-white images that could adversely affect the market value or

marketability.

- For any comparable sales, if an original photograph cannot be obtained, a clear copy of the photograph of the comparable sale from a multiple listing service (MLS) is acceptable. The appraiser must have provided a reasonable justification for using the MLS source.

## 2. Building sketch

- **Detached properties and end-unit properties**

For detached 1-unit properties, end units in Planned Unit Developments and units in Detached Condominium Projects, the exterior sketch of the improvements must include the dimensions and calculations the appraiser used to determine the size of the subject property.

- **Attached properties**

For interior units in **Planned Unit Developments** and attached Condominium Units, an interior perimeter sketch is acceptable. Appraisers may have relied on the dimensions and estimates for gross living area as shown on the plat or exhibits to the **Project Documents of a Condominium Project or Planned Unit Development**, or provided legible photocopies of floor plans or individual unit plats that include the dimensions and calculations.

- **2- to 4-unit properties**

For 2- to 4-unit properties, the sketch must also include each unit's layout and entries, and indicate the square feet of living area per unit and the gross building area (GBA).

## 3. Location map

The location map must identify the location of the subject property and any comparables including sale, rental and listing comparables as applicable. This map may be a photocopy of a printed street map showing the location of the subject property and comparable properties in relation to major streets and influences such as parks and schools.

### (b) Exhibits required for appraisals with interior and exterior inspections ( Forms 70, 70B, 72 and 465)

The following exhibits that meet the requirements in Section 44.12(a) are required for appraisals with interior and exterior inspections:

#### 1.

##### **Photographs of the subject property**

The report of an appraisal with an interior and exterior inspection must include at least three clear photographs of the subject property. The appraiser must have attached photographs of at least the following:

- A front view of the **subject** property
- A rear view of the **subject** property
- A street scene identifying the location of the **subject** property and showing neighboring improvements

The appraiser must include additional photographs, as needed to show the improvements, amenities or external influences that materially impact market value or marketability.

## **2. Photographs of comparable sales**

The report of an appraisal with an interior and exterior inspection must include at least one clear photograph that shows the front of each comparable sale.

The appraiser must include additional photographs, as needed to show the improvements, amenities or external influences that materially impact market value or marketability.

## **3. Building sketch**

## **4. Location map**

### **(c) Exhibits required for appraisals with exterior-only inspections ( Forms 466 and 2055)**

The report of an appraisal with an exterior-only inspection must include all the following that meet the requirements of Section 44.12(a):

- At least one photograph that shows the front view of the subject property
- Location map indicating the location of the subject property and any comparables, whether comparable sales, listings or rentals

### **(d) Exhibits required for inspection with an exterior-only inspection ( Form 2070)**

The report of an inspection must include all the following that meet the requirements of Section 44.12 (a):

- At least one photograph that shows the front view of the subject property
- Location map indicating the location of the subject property

For purchase transactions only, the file must contain a signed Form 1149, Notice About Appraisal of Your Property or similar form. (See Section 44.10.)

### **(e) Property Inspection Alternative (PIA)**

For purchase transactions only, the Mortgage file must contain a signed Form 1149, or similar form. (See Section 44.10.)

### **(f) Form 71, Market Condition Addendum**

Freddie Mac requires Form 71, Market Condition Addendum, for Mortgages with appraisals that have effective dates on and after April 1, 2009, regardless of the property type and inspection type. Freddie Mac does not require Form 71 with Mortgages originated with a Form 2070, Fannie Mae Form 2075 or a PIA.

### **(g) Summary of required exhibits and addenda**

The exhibits and addenda required for each collateral assessment type are summarized in the following chart.

<b>Exhibits for Appraisals, Inspections and the Property Inspection Alternative (PIA)</b>
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	PIA	Inspection	Appraisal	Appraisal
<b>Inspection Types</b>	<b>Not Applicable</b>	<b>Exterior Only</b>	<b>Exterior Only</b>	<b>Interior &amp; Exterior</b>
Form 71	Not Applicable	Not Applicable	Required	Required
Photographs of subject property	Not Applicable	Front view	Front view	Front view Rear view Street scene
Photographs of comparable sales	Not Applicable	Not Applicable	Not required	Front view
Building sketch or interior perimeter sketch	Not Applicable	Not Applicable	Not required	Required
Location map of subject property	Not Applicable	Required	Required	Required
Location map of comparable properties	Not Applicable	Not Applicable	Required	Required
Notice about the appraisal of your property ( Form 1149)	Required for purchase transactions only	Required for purchase transactions only	Not required	Not required

Figure 44.4, Exhibits for Appraisals, Inspections and PIA

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#### **44.13: Other exhibits and addenda (10/09/09)**

The appraiser must provide any additional information or data that is needed to provide the lender/client with a credible appraisal. The Seller may request that the appraiser provide additional exhibits or addenda as part of the appraisal scope of work. Any exhibit or addenda must be incorporated into the appraisal or inspection report.

If the Mortgaged Premises are a unit in a Condominium Project located in a California moderate-risk zip code, see Section 42.8(c)4 for additional appraisal requirements.

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#### **44.14: Completion report (10/06/06)**

Changes to these requirements have been announced and will become effective on 09/01/10.

For appraisal reports made subject to repairs, alterations or conditions, or subject to completion in accordance with plans and specifications, the Seller must include a completion report in the Mortgage file. The certificate must be dated before the Delivery Date of the Mortgage unless an Escrow account has been established in accordance with the requirements of Section 23.8 or 44.2(b). See Form 442 for a suggested format for a completion certificate. The certification must:

- Be made after completion of the repairs, improvements, alterations, conditions or construction
- Clearly state that all conditions or requirements set forth in the original appraisal report of the Mortgaged Premises have been fulfilled
- Be prepared and signed by the original appraiser, if available, or by another qualified appraiser approved by the Seller

(See Section 44.3(d) for documentation requirements for detrimental conditions and see Section 44.7(k) for information about appraisal updates and completion certificates.)

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#### **44.14: Final inspection and completion report (Future effective date 09/01/10)**

These requirements will become effective on 09/01/10. View current requirements.

For appraisals that are made subject to completion per plans and specifications, or to repairs, alterations or conditions, a final inspection of the property is required and a completion report must be provided that documents that the property has been completed. The completion report must meet the requirements of this section and must be retained in the Mortgage file.

For appraisals that are made subject to completion per plans and specifications, or are subject to repairs or alterations:

- An appraiser must perform the final inspection of the property and sign the completion report
- The completion report must include updated photographs if the photographs provided as exhibits to the underlying appraisal do not reflect the condition and marketability of the dwelling as of the Settlement Date. If the renovations, rehabilitation or upgrades are to the interior of the improvements, interior photographs are required.
- For appraisals that are made subject to final inspection of the property by a licensed professional (e.g. structural engineer, well digger, pest inspector):
  - A licensed professional must perform the inspection of the property and complete any needed repairs
  - The completion report must be either:
    - A report signed by the licensed professional who inspected the property stating that the repair is not required, or
    - A report or invoice signed by the licensed professional who performed the repairs stating that the repair has been completed and the issue corrected

The report or invoice must provide the professional's license number and signature.

- For appraisals that are subject to any of the conditions above, the inspection of the property and the completion report must meet all the following requirements:
  - The final inspection of the property must be performed after completion of the construction,

repairs, improvements, alterations or conditions

- The completion report must state that all conditions or requirements set forth in the appraisal have been fulfilled, or that the repairs have been completed or were not necessary
- The completion report must be dated before the Settlement Date unless the requirements for incomplete improvements have been met. (See Section 44.2(b) for more information.)

See Form 442 for a suggested form or suggested text that may be used as a completion report.

If a final inspection of the property and a new appraisal of the property are both required, the Seller has the option to obtain a new appraisal that also acts as a completion report. The appraiser performing the new appraisal must provide an 'as is' value as the opinion of value. See Section 44.7(k) for more information.

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#### 44.15: Property description and analysis (03/11/10)

The appraisal must be completed in a manner that correctly depicts or describes the neighborhood, site and improvements. The following sections correspond primarily to Form 70, Uniform Residential Appraisal Report, but all of the requirements and guidelines also apply to the other appraisal report forms unless otherwise stated in this section.

##### (a) Subject section

This section of the report must clearly identify the subject property by providing a complete property address and legal description. If a legal description is lengthy, the appraiser may attach it as an addendum to the report.

Identify the "property rights appraised" as either a fee simple or leasehold.

The appraiser must complete the section, including the data sources used to verify the listing and sale price information.

##### (b) Contract section

The sales price, contract date and loan charges paid by the property seller, or the financing and sales concessions made by the property seller or other interested party to the transaction, must be stated in the sales contract. The Seller is responsible for the appraiser being provided the complete contract for sale for the subject property with the appraisal request regardless of whether the appraisal is ordered by the Seller or another lender as permitted under the Home Valuation Code of Conduct. The appraiser must have the necessary and appropriate data sources for the area in which the subject property is located. If the appraiser cannot obtain the complete contract for sale for the subject property and all information needed to perform the analysis, the appraiser should decline the appraisal assignment. In rare instances the appraiser may consider accepting the assignment without access to the sales contract if the terms of the sale reflect prevailing market terms as of the effective date of the appraisal and can be independently verified, and the appraiser can provide a credible and reliable report without the contract.

The appraiser must analyze and report his or her conclusions on any current contract for sale for the subject property, any offering or listing for sale for the subject property as of the effective date of the appraisal, and, if such information is available in the normal course of business, the sales history of the subject property and comparable sales.

The appraiser must report the total dollar amount of any sales and financing concessions, gifts and/or down payment assistance provided by anyone on behalf of the purchasers (purchase transactions) or Borrowers (refinance transactions), and must identify which party provided the concessions and/or assistance.

If the appraiser did not report and analyze any payments made on behalf of the Borrower or did not state the actions taken to obtain the information, the Seller must contact the appraiser to determine whether an appraisal update is required.

**(c) Neighborhood section**

The neighborhood section of the report must contain an accurate description of the subject neighborhood and the factors that influence market value and marketability in the neighborhood. The information presented in the neighborhood section must be consistent with, and support, the conclusions reached by the appraiser.

Unfavorable factors revealed in the neighborhood section require the appraiser to address the impact of those factors on value and marketability. If the appraisal demonstrates that there is a viable market for housing in the neighborhood or that the neighborhood is undergoing revitalization, the unfavorable factors do not necessarily make the Mortgage ineligible for sale to Freddie Mac.

An appraiser may use a block-by-block analysis in neighborhoods that have undergone significant deterioration or abandonment in the past, but are now undergoing an evident revitalization effort, to demonstrate that there is a viable market for housing. In this analysis, the appraiser should describe the extent of revitalization efforts under way, the demand evidenced for renovated housing and the boundaries of the revitalized area being used as the subject neighborhood. This analysis must be consistent with the data presented and support the conclusions reached by the appraiser throughout the report.

If the appraiser has selected comparables from a competing neighborhood, the appraiser must identify the competing neighborhood in this section or an appropriate addendum and describe why it is comparable to the subject neighborhood. The appraiser should explain why the competing neighborhood is a more relevant source of comparables than the subject neighborhood, as of the effective date of the appraisal.

**Retail or commercial property in the subject neighborhood does not make the subject project ineligible.**

The appraiser must certify that the estimate of market value is not based on the race, color, sex, handicap, familial status, religion or national origin of

- Prospective owners or occupants of the subject property, or
- Present owners or occupants of the properties in the vicinity of the subject property

In addition, the appraisal must not improperly take into consideration the

- Property modifications made to accommodate handicapped persons
- Age or location of a dwelling, or
- Age of the neighborhood or census tract where the dwelling is located

As a matter of corporate policy, Freddie Mac will not accept any Mortgage supported by an appraisal

report that makes reference to the race, color, religion or national origin of any person, or the age or racial composition of the neighborhood. (See Section 44.6(a) for unacceptable appraisal practices.)

**(d) Site section**

**1. Property characteristics**

This section must accurately describe the physical characteristics of the site, site improvements and available utilities, and must fully analyze any locational factors affecting the site.

- **Zoning**

The appraisal report must accurately state:

- The zoning classification (if classified), and
- Whether the use of the subject property complies with the reported classification

The use of the Mortgaged Premises must conform to applicable zoning and use restrictions. Freddie Mac may, however, purchase a Mortgage secured by property that does not conform to applicable zoning and use restrictions, if the property is a legal use (commonly referred to as legal nonconforming use). [Units in attached Condominium Projects must be legal conforming.](#)

The appraiser must comment on any adverse effect of any nonconforming use when estimating the market value and marketability of the property.

- **Utilities**

The utilities serving the subject property must meet community standards. In addition, the comparable sales should have utilities similar to the subject property. When differences in utilities exist between the subject property and the comparable sales, any adjustments **or lack of adjustments** made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum. In addition, the appraisal must evaluate the effect these differences have on the subject property's value or marketability.

- **Streets**

The subject property must have legally appropriate ingress and egress. The streets serving the subject property must be maintained in a manner that generally meets community standards. In addition, the comparable sales should have street maintenance similar to the subject property. When differences exist between the ownership or maintenance of the subject property's streets and the comparable sale's streets, adjustments **or lack of adjustments** made to the comparable sales for the differences must be explained in the comments area or on an attached addendum. In addition, the appraisal must evaluate the effect these differences have on the subject property's value or marketability.

- **Land-to-value ratio**

The land-to-value ratio should be typical for residential properties in the market.

- **Excess acreage**

The appraiser must appraise the entire site for residential use, regardless of the amount of acreage. The site description must accurately describe the entire site and any improvements to include any outbuildings. The comparable sales should have similar acreage. When differences in acreage exist between the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum, and the appraiser must explain the effect these differences have on the subject property's value or marketability.

- **Additional parcels**

The Mortgaged Premises may consist of more than one adjoining parcel of real estate, but cannot include an adjoining parcel that contains an additional residence. When the subject property includes two or more adjoining parcels of real estate, the site description must accurately describe the land and any improvements included in each of the parcels. In addition, the comparable sales should have adjoining parcels similar to the subject property. When differences in sites exist between the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum. In addition, the appraisal report must explain the effect these differences have on the subject property's value or marketability (see also Section 44.2).

- **Flood hazard area**

The appraiser is not required to complete this section if the flood zone is determined by another party, such as a non-appraiser on the staff of the Seller, a surveyor or a specialized flood zone determination company.

If the property is in a "Special Flood Hazard Area" (SFHA) as identified by the Federal Emergency Management Agency (FEMA) through the National Flood Insurance Program (NFIP), the appraiser must comment on and consider any impacts this has on the subject property's market value or marketability.

See Section 58.3 for flood zone determination and flood insurance requirements.

## 2. **Impact of Contaminated Sites, Hazardous Substances and other adverse conditions**

The appraiser must consider any known Contaminated Sites or Hazardous Substances that affect the property or the neighborhood in which the property is located. The appraiser must also report the presence of Contaminated Sites or Hazardous Substances, make appropriate adjustments to reflect any impact on market value, and comment on any effect on the marketability of the subject property.

Examples of matters about which the appraiser must note and comment include but are not limited to:

- Any presence of asbestos, urea-formaldehyde or any similar insulation in the dwelling
- Proximity of the property and/or its neighborhood to a Contaminated Site
- Proximity of the property to ground water contamination, chemical or petroleum spills or other Hazardous Substances that are expected to impact the area for more than one year
- Proximity of the property to areas that may affect the value or marketability of the property including, but not limited to, the following:

1. Industrial sites
2. Waste or water treatment facilities
3. Commercial establishments (other than retail establishments that serve the residential neighborhood)
4. Airport approach paths
5. Floodplains
6. Landslide areas

**(e) Improvements section**

The appraisal report must contain an accurate description of the improvements and any factors that may affect the market value or marketability of the subject property. Freddie Mac does not provide minimum specifications for materials and construction.

An unusual floor plan, such as a home with tandem bedrooms or a bathroom off the kitchen, does not make a property ineligible for financing. The appraiser should address whether an unusual floor plan or similar obsolescence is also found in other properties in the neighborhood, and to the extent possible, comparables used should also have similar obsolescence in order to demonstrate marketability and support value.

A 1-unit detached property may have an incidental accessory unit that is incidental to the overall value and appearance of the subject property. Examples of such properties include a dwelling with a unit above a detached garage, a dwelling with a guest apartment, or a detached dwelling in a Planned Unit Development with a basement unit. The appraiser must describe the accessory unit, and analyze any effect on the value or marketability of the subject property.

For properties that have recently undergone rehabilitation or renovation, the appraiser must list the changes made and provide photographs of the rehabilitation or renovation. The photographs must meet the requirements of Section 44.12(a).

When the subject property does not conform to its neighborhood in terms of type, design, age, and the materials and techniques used in its construction, the appraisal must evaluate the effect the nonconformance has on the property's value and marketability. The appraisal must not improperly take into consideration the age of the dwelling. (See Section 44.6(a) for unacceptable appraisal practices.)

Other requirements and conditions relating to the improvements are the following:

- The property must be habitable as a year-round residence
- The appraiser must note if the subject property is dissimilar to competing properties in the neighborhood and address the impact on marketability

Freddie Mac does not require an estimate of remaining economic life.

**(f) Sales comparison approach**

Freddie Mac considers the sales comparison approach to be the most reliable approach to value. Therefore, a Seller must place primary emphasis on this approach when reviewing and judging the acceptability of each appraisal.

Each comparable sale must be analyzed for similarities and differences between it and the subject property. The appraiser must make appropriate adjustments for differences, and indicate the dollar amount of the adjustments to reflect the value of the differences to the market. Comparable sales must be adjusted to the subject property, except for sales and financing concessions that must be adjusted to the market at the time of the sale.

The appraiser must independently verify and analyze all pending and recent sales of comparable properties, report how the sales were verified and whether concessions were granted. At least three verified, closed (settled) sales of comparable properties must be analyzed and market-based adjustments made for significant differences between the comparable sales and the subject property.

Sales or financing concessions are offered by interested parties to the transaction (e.g., the builder, developer, property seller or real estate agent). Because the effect of concessions on sale prices can vary with the type and amount of the concessions, any adjustments to comparable sales must be based on the market reaction to them. The appraiser should provide comparable sales that sold without concessions to support the adjustments made in determining the market reaction to the concessions. Adjustments may not be based solely on dollar-for-dollar deductions equal to the dollar value of the concessions. If comparable sales without concessions are not available, adjustments to comparable sales with concessions must reflect the differences between what the comparable sales actually sold for with the concessions and what they would have sold for without the concessions.

The appraiser's opinion of value must reflect the value of the subject property without the concessions. The appraiser must also provide the dollar value of the concessions as a comment in the appraisal report.

For Seller treatment of concessions, see Section 25.3, Interested party contributions.

The three comparable sales listed in the report must be:

- Similar to and located near the subject property
- Properties with closing (settlement) dates that occurred before the effective date of the appraisal of the subject property
- Recently sold. If the sale of a comparable property occurred more than 12 months before the date of the appraisal, the appraiser must justify in the appraisal report the use of the comparable property

Additional comparables, in the form of closed sales, sales under contract or current listings, may be used to support the appraiser's adjustments and conclusions, address changes in the market, support the use of older comparables in stable neighborhoods or support the use of distant or less similar comparables in rural areas.

Additional comparables are not always needed, but may contribute significantly to understanding unusual situations, such as limited markets, neighborhoods with little turnover of property and areas with a variety of distinct property types.

Comparables may be taken from a competing neighborhood if:

- The appraiser has established that the neighborhoods are comparable and compete for the same buyers, and
- Comparables taken from the competing neighborhood are better indicators of current market trends in the subject neighborhood than the existing comparables available in the subject neighborhood

For properties located in existing established subdivisions, **Planned Unit Developments** or ground lease communities and for units in existing Condominium Projects, the appraiser may use three comparable sales from within that subject project or subdivision. However, if the subject property is in a controlled market (such as a new subdivision or project, a newly-converted project or an area where the property seller owns a substantial number of units), at least one comparable sale must be outside the influence of the developer, builder or property seller. Resales from within the subject project or subdivision may be used to meet this requirement. When comparable sales from outside the subject project or subdivision are used, they must also be outside the influence of the subject property's developer, builder or property seller.

**(g) Sale and listing history**

The appraiser must research, verify, analyze and report:

- Any current agreement for sale for the subject property
- Any offering for sale of the subject property in the twelve months prior to the effective date of the appraisal
- Any prior sales or transfers of the subject property for the three years prior to the effective date of the appraisal
- Any prior sales or transfers of each comparable sale for the year prior to the date of sale of each comparable sale

The Seller's review of the acceptability of each appraisal should include an analysis of the sale and listing history. The Seller must confirm that the sale price trend in relation to the appraiser's estimate of value is reasonable and representative of the market.

For purchase transactions, the Seller should analyze the appraisal report and the current contract for sale for the subject property.

For both purchase and refinance transactions, the Seller's underwriting analysis of the appraisal report should include any current listing or offering for sale for the subject property, the sales history of the subject property and comparable sales, and the current ownership of the subject property.

To reduce the Seller's risk of liability resulting from fraudulent or inaccurate appraisals, the Seller should analyze the subject property and comparable sales and evaluate the time elapsed between the date(s) the property was acquired and the date(s) resold, or the date of the current resale contract, if applicable. If the sales history of the subject property or comparable sales indicates current or prior sale prices may be excessive, and resale dates occurred shortly after the property seller's acquisition of the property, the appraisal report should provide evidence to support a rapidly appreciating real estate market, significant improvements that resulted in a corresponding increase in the property value or a previous sale that was below market value due to a distress or tax sale.

**(h)**

**Reconciliation**

The data and information presented in the appraisal report must support the appraiser's estimate of market value. The appraiser must explain how the final value conclusion was determined, and the rationale must be consistent with the comments, conclusions and assumptions stated throughout the appraisal report.

The reconciliation must contain any conditions of the appraisal on which the final estimate of value is based.

If the subject transaction involves sales or financing concessions, the appraiser's opinion of value must reflect the value of the subject property without the concessions. The appraiser must also provide the dollar value of the concessions as a comment in the appraisal report.

**(i) Comments section**

Any additional features; necessary repairs or modernization; or physical, functional or external inadequacies must be reported in the "comments" sections of the appraisal report or detailed in the addenda to the appraisal report.

Repairs that affect the safety, structural integrity, mechanical systems or habitability of the improvements **must be made**. **Cosmetic repairs, those that do not affect the safety, structural integrity, mechanical systems or habitability** need not be **made** as long as:

- The appraiser has made any necessary adjustments to the comparables
- The appraisal is not made subject to repairs and
- The appraiser has addressed whether the condition affects the value or marketability of the property

Examples of cosmetic repairs include: worn floor coverings, minor cracks in windows, minor holes in interior walls or interior doors, etc.

If the appraiser notes that additions or alterations were made without required permits, the appraisal report should also contain comments on the quality and appearance of the work. In addition, the appraiser should note special energy-efficient items and adverse environmental conditions.

If the property has been modified to accommodate mixed use, the appraiser should address whether the modifications affect the property's marketability as a residence and whether the cost to restore the property to solely residential use will affect its value.

**(j) Cost approach**

The cost approach to value is required for appraisals of Manufactured Homes. It is not required for appraisals of attached **Planned Unit Development** or Condominium Units.

The Seller may request the appraiser to develop and report the cost approach to value when not required for the transaction. The appraiser must develop and report the result of any approach to value that is applicable and necessary for an appraisal, even if the Seller did not request it. The approach may be appropriate especially when appraising properties that are:

- New or proposed construction
- Under renovation
- Unique because of their styles or construction methods, or
- Have functional obsolescence not typical for the market

When the cost approach to value is developed, the appraiser must make proper adjustments for any items detrimental to stability or marketability, such as physical, functional and external depreciation that are not typical for the market.

**Appraisals** that rely primarily on the cost or income approaches to value in order to estimate market

value are unacceptable.

**(k) Income approach**

The income approach to value is required for appraisals of 2- to 4-unit properties. The Seller may request the appraiser to develop and report the income approach to value when not required for the transaction. The appraiser must develop and report the result of any approach to value that is applicable and necessary for an appraisal, even if the Seller did not request it.

Appraisals that rely primarily on the income or cost approaches to value in order to estimate market value are unacceptable.

**(l) Planned Unit Development units**

See Section 43.4 for appraisal requirements for units in Planned Unit Developments.

**(m) Condominium Units**

See Section 42.8 (c) for appraisal requirements for units in Condominium Projects.

**(n) Manufactured Homes**

See Section H33.6 for appraisal requirements for Manufactured Homes.

**(o) 2- to 4-unit properties**

In addition to the other requirements and guidelines set forth in this chapter, the following requirements and guidelines are applicable to completing Form 72, Small Residential Income Property Appraisal Report, for 2- to 4-unit properties.

**1. Comparable rent data for 2- to 4-unit properties**

At least three rental comparables must be analyzed in the "comparable rental data" section. These rental comparables must:

- Have current rental information
- Be units similar to and located near the subject property

The rental comparables are usually not the same comparable properties used in the sales comparison approach. The appraisal report should state that the units and properties selected as rental comparables are comparable to the subject property (both the units and the overall property) and should accurately represent the rental market for the subject property unless otherwise stated in the report.

**2. Subject's rent schedule for 2- to 4-unit properties**

This section contains the subject property's current actual rents and the estimated market rents. The estimated market rents for the subject property must be supported in the appraisal report and be consistent with the data presented throughout the report.

**3. Sales comparison approach for 2- to 4-unit properties**

In addition to the other requirements in this chapter, the appraisal must contain the unadjusted units of comparison for the comparable sales. If the appraisal is prepared in conjunction with a

purchase transaction, the units of comparison must be provided for the subject property as well. These units of comparison are the sales price per square foot of gross building area (GBA), per unit and per room and the gross rent multiplier (GRM). The comment area of the sales comparison analysis must reconcile the adjusted sales prices of the comparable sales and the unadjusted units of comparison, as appropriate, according to the manner in which such properties sell in the defined market area.

The appraiser must indicate in the comments area which factors are deemed most consistent and which factors typical investors or purchasers in that market consider when purchasing a similar property.

**(p) Leasehold estates**

See Section 41.3 for appraisal requirements for leasehold estates

**(q) Energy-efficient properties**

An energy-efficient property uses cost-effective design, construction, materials, mechanical systems, equipment and site orientation to conserve energy in a manner consistent with the area in which the property is located.

If the property has energy-efficient features, the appraiser must identify the features.

If energy-efficient features of a property, whether the subject property or comparable sales, affect value or marketability, the appraiser must make appropriate adjustments to reflect the market reaction to the energy-efficient features.

**(r) Mixed Use Properties**

The appraiser must provide the following when appraising a mixed use property:

- An appraisal with an interior and exterior inspection
- A detailed description of any accommodations made for the commercial use of the subject property
- A discussion of any adverse impacts of the commercial use
- A statement describing any market resistance to the commercial use, and adjustments for any commercial features made to the comparable sales
- An opinion of value based on the property's residential nature

Each residential property with mixed use must meet all of the following requirements:

- The property must be located in a residential neighborhood, be primarily residential in nature, and must be typical for the properties in the market
- The use must represent a legal, permissible use of the property under the local zoning requirements
- The property must be a 1-unit Primary Residence
- If the property has a commercial use, the Borrower must be the owner and the operator of the business

- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residence
- The commercial use must not have an adverse effect on the habitability and safety of the property or site

**Freddie Mac Single-Family Seller/Servicer Guide/Single-Family Seller/Servicer Guide, Volume 1/Chs. 39-45: Property Eligibility/Chapter 44: Appraisals, Inspections and the Property Inspection Alternative (PIA) (01/01/06)/44.16 – 44.20**

## 44.16 – 44.20

Reserved for future use.

**Freddie Mac Single-Family Seller/Servicer Guide/Single-Family Seller/Servicer Guide, Volume 1/Chs. 39-45: Property Eligibility/Chapter 44: Appraisals, Inspections and the Property Inspection Alternative (PIA) (01/01/06)/44.21: Faxing and other electronic transmission of appraisal and inspection reports (03/31/09)**

## 44.21: Faxing and other electronic transmission of appraisal and inspection reports (03/31/09)

### (a) Facsimile (fax) transmission of appraisal and inspection reports

The Seller may receive, use and maintain a fax transmission of the appraisal and inspection report as an original Mortgage file document if all of the following conditions are met:

- The appraisal or inspection report otherwise complies with all applicable requirements of this chapter
- The appraiser faxes the completed appraisal or inspection report by fax transmission directly to the Seller or any third party specifically authorized by the Seller in compliance with the Home Valuation Code of Conduct (HVCC), as applicable
- The photographs and any addenda are clear and otherwise satisfy the requirements of Section 44.12(a) and 44.13
- The Seller represents and warrants that the fax copy of the appraisal or inspection report contains a copy or representation of the appraiser's original written signature and, if applicable, the supervisory appraiser's original written signature
- The Seller represents and warrants that the fax copy of the appraisal or inspection report is as effective, enforceable and valid as a paper original of the appraisal or inspection report duly executed by the appraiser and, if applicable, the supervisory appraiser

The Seller retains liability for the authenticity and accuracy of the appraisal or inspection report. In the event the Seller is concerned about the accuracy or reliability of the appraisal or inspection report or photographs, the Seller shall immediately obtain a paper duplicate of the original appraisal or inspection report signed with pen and ink by the appraiser and, if applicable, the supervisory appraiser and maintain it in the Mortgage file. The Seller shall provide the original appraisal or inspection report and photographs to Freddie Mac at any time upon Freddie Mac's request. After receiving the paper duplicate of the original appraisal or inspection report signed with pen and ink by the appraiser, and the supervisory appraiser if applicable, the Seller may maintain a copy of the paper duplicate of the original appraisal or inspection report and photographs reproduced from the original of such documents, in accordance with the requirements of Section 52.2 of the Guide. The

Seller shall provide Freddie Mac with a copy of the original appraisal or inspection report and photographs upon Freddie Mac's request.

The Seller represents and warrants that any appraisal or inspection report and photographs received from an appraiser by the Seller or **any third party specifically authorized by the Seller in compliance with the HVCC** as a fax copy is a copy of the original appraisal or inspection report, including photographs, that was signed by the appraiser, and a supervisory appraiser if applicable, and that it complies with applicable State and federal laws and regulations. The Seller agrees that the appraisal or inspection report and photographs received from an appraiser by the Seller or **any third party specifically authorized by the Seller in compliance with the HVCC** as a fax copy are subject to Seller's representations, warranties, covenants, agreements and requirements contained in Section 1.3(j) and 1.3(k) of the Guide, as applicable.

In the event the Seller becomes aware of the unauthorized or improper use of the appraiser's signature and a supervisory appraiser's signature if applicable, in connection with any fax copy of an appraisal or inspection report, including photographs, the Seller must notify Freddie Mac immediately.

(b)

**Electronic transmission of electronic appraisal and inspection reports**

The Seller may use and maintain an **Electronic Record** of the appraisal or inspection report as an original Mortgage file document if all of the following **conditions** are met:

- The electronic appraisal or inspection report otherwise complies with the applicable requirements of Chapter 44
- The appraiser electronically transmits the electronic appraisal or inspection report directly to the Seller or **any third party specifically authorized by the Seller in compliance with the HVCC**, as applicable
- The electronically transmitted photographs and any addenda are clear and otherwise satisfy the requirements of Sections 44.12(a) and 44.13
- The Seller represents and warrants that the appraiser's Electronic Signature, and a supervisory appraiser's signature if applicable, are attached to or logically associated with the electronic appraisal or inspection report in accordance with the federal Electronic Signatures in Global and National Commerce Act ("E-Sign") and other applicable State and federal laws
- The Seller represents and warrants that the electronic appraisal or inspection report is as effective, enforceable and valid as a paper original of the appraisal or inspection report duly executed by the appraiser, and the supervisory appraiser if applicable

In addition to the unacceptable appraisal and inspection report practices set forth in Section 44.6, the following are unacceptable electronic appraisal and inspection report practices and will constitute a breach of the Seller's warranty of the professional quality of the appraisal and inspection report:

- Failure of the appraiser to take reasonable precautions to protect his or her electronic signature from identity and signature theft, including granting a trainee, administrative personnel or other third party permission to use the appraiser's or supervisory appraiser's electronic signature
- Failure to maintain proper security controls to protect against alteration of the appraisal or inspection report or data used in connection with preparing the reports by someone other than the appraiser, or supervisory appraiser if applicable, ultimately responsible for the report
- Failure to securely store the electronic appraisal or inspection report, including all original photographs, maps and supporting documents, as originally reported by the appraiser

The Seller retains liability for the authenticity and accuracy of the electronic appraisal or inspection report, including all original photographs, maps and supporting documents. In the event the Seller is concerned about the accuracy or reliability of the electronic appraisal or inspection report or photographs, maps and supporting documents, the Seller shall immediately obtain a paper duplicate of the electronic appraisal or inspection report signed with pen and ink by the appraiser, and the supervisory appraiser if applicable, and maintain the paper duplicate of the electronic appraisal or inspection report in the Mortgage file. The Seller shall provide the electronic or original appraisal or inspection report and photographs, as applicable, to Freddie Mac at any time upon Freddie Mac's request. After receiving the paper duplicate of the original appraisal or inspection report signed with pen and ink by the appraiser, and the supervisory appraiser if applicable, the Seller may maintain a copy of the paper duplicate of the original appraisal or inspection report and photographs reproduced from the original of such documents, in accordance with the requirements of Section 52.2. The Seller shall provide Freddie Mac with a copy of the original appraisal or inspection report and photographs upon Freddie Mac's request.

The Seller represents and warrants that any appraisal or inspection report, including photographs received from an appraiser by the Seller or **any third party specifically authorized by the Seller in compliance with the HVCC as an Electronic Record**, is a copy of the original appraisal or inspection report, including photographs, that was signed by the appraiser and a supervisory appraiser if applicable, and that it complies with applicable State and federal laws and regulations. The Seller agrees that the appraisal or inspection report and photographs received from an appraiser by the Seller or **any third party specifically authorized by the Seller in compliance with the HVCC as an Electronic Record** are subject to the Seller's representations, warranties, covenants, agreements and requirements contained in Sections 1.3(j) and 1.3(k).

In the event the Seller becomes aware of the unauthorized or improper use of the appraiser's signature and a supervisory appraiser's signature if applicable, in connection with any electronic appraisal or inspection report, including photographs, or if the Seller suspects unauthorized alteration of any appraisal or inspection report, the Seller must notify Freddie Mac immediately.