



To: All Customers **From:** Underwriting
Date: 03/23/20 – Updated 01/22/21 **Memo #:** 20030
Subject: **Conventional Appraisal Tolerances due to COVID-19**

Please refer to the [COVID Tolerances Extended- Conventional](#) announcement for the most recent information.

Effective immediately, due to the ongoing impact of COVID-19, interim appraisal guidance for Conventional transactions meeting Fannie Mae and Freddie Mac expressed tolerances are being implemented. Any future announcements by the agencies pertaining to appraisals will be assessed and updated within this memo. Only the tolerances expressed below will be accepted by Flagstar Bank as alternatives to the requirements listed in the [Conventional Underwriting Guidelines](#).

These temporary flexibilities are effective for all loans in process and remain in place for loans with applications dates on or before January 31, 2021 for which an appraisal has not already been obtained.

APPRAISALS

In order to reduce contact between appraisers, homeowners, and home purchasers, it is encouraged to accept an appraisal waiver (PIW or ACE/PIA) offering provided through DU or LPA when eligible. Appraisal waivers are subject to the requirements as outlined in the [Conventional Underwriting Guidelines](#).

If an interior and exterior appraisal is not obtained and there is insufficient information about the property, **including the interior condition**, for an appraiser to be able to complete an appraisal assignment with a desktop or exterior-only inspection appraisal as allowed, the loan will not be eligible.

For transactions with a LTV greater than 80%, the mortgage insurance company must confirm tolerance to use one of the temporary appraisal flexibilities or they may apply additional requirements beyond those listed below.

APPRAISAL FLEXIBILITIES

Loan Purpose	LTV Ratio	Occupancy	Ownership of loan Being Refinanced	Permissible Appraisals
Purchase Transaction ¹	Up to 97%	Owner Occupied	NA	Interior and Exterior Appraisal, Desktop Appraisal, or Exterior-Only Appraisal ²
	≤ 85%	Second Home and Investment	NA	Interior and Exterior Appraisal, Desktop Appraisal, or Exterior-Only Appraisal
	>85%	Second Home	NA	Interior and Exterior Appraisal only No alternative appraisal types will be accepted
Limited Cash-Out Refinance	Per Product Eligibility	All	Mortgage being refinanced by same investor (Fannie Mae to Fannie Mae, or Freddie Mac to Freddie Mac). See Loan Look Up Tools Below	Interior and Exterior Appraisal Exterior-Only Inspection

Loan Purpose	LTV Ratio	Occupancy	Ownership of loan Being Refinanced	Permissible Appraisals
			Mortgage being refinanced not owned by the corresponding investments	Interior and Exterior Appraisal only No alternative appraisal types will be accepted
Cash-Out Refinance	Per Product Eligibility	All	Regardless of ownership of mortgage being refinanced	Interior and Exterior Appraisal only No alternative appraisal types will be accepted
Construction-to-Permanent & Renovation Financing	Per Product Eligibility	All	NA	Interior and Exterior Appraisal only No alternative appraisal types will be accepted
Flagstar Concurrent HELOCS (purchase and refinance)	Per Product Eligibility	Owner Occupied and Second Home	NA	Interior and Exterior Appraisal or Desktop Appraisal (when a desktop is eligible for agency delivery per above) (Appraisal waivers remain ineligible)

1. Excludes construction to permanent loans
2. Exterior only is excluded for new construction

REFINANCE OWNERSHIP LOAN LOOK UP TOOLS

The following links are available to identify if the existing mortgage being refinanced is owned by either Fannie Mae or Freddie Mac.

- Fannie Mae: <https://www.knowyouroptions.com/loanlookup>
- Freddie Mac: <https://ww3.freddiemac.com/loanlookup/>

Future releases to AUS feedback messages will be updated for DU to reflect when Fannie Mae owned and LPA when Freddie Mac owned when the property address and the social security of at least one of borrowers matches an existing loan held by the agency.

DESKTOP APPRAISALS

For purchase transaction Mortgages, it is encouraged to obtain a desktop appraisal in lieu of an appraisal with an exterior-only inspection when an interior and exterior inspection is not available.

The minimum scope of work for a desktop appraisal does not include an inspection of the subject property or comparable sales. The appraiser relies on public records, multiple listing service (MLS) information or other third party data sources to identify the property characteristics.

When a desktop appraisal is obtained using Form 70, Uniform Residential Appraisal Report, or Form 465, Individual Condo Unit Appraisal Report, and submitted to the Uniform Collateral Data Portal® (UCDP®), the appraisal will be assessed through Collateral Underwriter.

The table below provides the appraisal report form that must be used to complete the desktop appraisal for each property type:

Property Type	Acceptable Appraisal Form
1-unit property, including a unit in a PUD or a Detached Condo	Form 1004, Uniform Residential Appraisal Report
Attached Condo	For 1073/465, Individual Condo Unit Appraisal Report

Cooperative Unit	Form 2090, Exterior Only Individual Cooperative Interest Appraisal Report
2- to 4-unit property	Form 1025/72, Small Residential Income Property Appraisal Report
Manufactured Home	Form 1004C/70B, Manufactured Home Appraisal Report

EXHIBITS FOR DESKTOP APPRAISALS

Each desktop appraisal must include the following exhibits:

- Photographs of the subject property. Though it may be challenging in some instances to obtain photographs; it is expected that the appraiser utilize available means to obtain relevant pictures of the subject property.
- A location map indicating the location of the subject and comparables

DOCUMENTATION REQUIREMENTS FOR NEW CONSTRUCTION PROPERTIES

When a desktop appraisal is provided for new construction properties where the appraisal is “subject to completion per plans and specifications,” the builder must provide the following to the appraiser:

- Plans and specifications
- Survey and/or plot plan
- Current photos of the subject property
 - If construction has not yet begun, a photograph of the site and down the street in both directions
 - If construction is partially complete, a photograph is required of the following:
 - A front view of the subject property
 - A rear view of the subject property
 - A street scene (i.e., a photograph down the street in both directions)
 - The following interior photos are required when construction is at a stage in which they are available
 - The kitchen of the subject property
 - All bathrooms of the subject property
 - The main living area of the subject property
 - Basement, including all finished rooms
- A copy of the complete, ratified sales contract, and all addenda

If construction of the property is 100% complete, and the appraisal report will be completed “as is,” the builder must provide the appraiser with the following:

- Plans and specifications
- Survey and/or plot plan
- Current photos of the subject property
 - A front view of the subject property
 - A rear view of the subject property
 - A street scene (i.e., a photograph down the street in both directions)
 - The kitchen of the subject property
 - All bathrooms of the subject property
 - The main living area of the subject property
 - Basement, including all finished rooms

- A copy of the complete, ratified sales contract, and all addenda

BUILDER CERTIFICATION FOR NEW CONSTRUCTION PROPERTIES

A signed [Builder Certification](#) attesting that the information provided (see above) is true and correct is required.

APPRAISALS WITH EXTERIOR-ONLY INSPECTIONS

The table below provides the appraisal report form that must be used to complete an appraisal with an exterior-only inspection for each property type. Because there are not appropriate exterior-only appraisal report forms available for 2- to 4-unit properties and Manufactured Homes, we will accept an exterior-only appraisal scope of work completed using the applicable forms listed below.

The table below provides the appraisal report form that must be used to complete the exterior only appraisal for each property type:

Property Type	Acceptable Appraisal Form
1-unit property, including a unit in a PUD or a Detached Condo	Form 2055, Exterior Only Residential Appraisal Report
Attached Condo	For 1075/446, Exterior Only Individual Condo Unit Appraisal Report
Cooperative Unit	Form 2095, Exterior Only Individual Cooperative Interest Appraisal Report
2- to 4-unit property	Form 1025/72, Small Residential Income Property Appraisal Report
Manufactured Home	Form 1004C/70B, Manufactured Home Appraisal Report

EXHIBITS FOR EXTERIOR-ONLY INSPECTION APPRAISALS

Sellers are reminded that the following are required in connection with an appraisal with an exterior-only inspection:

- A street map that shows the location of the subject property and of all comparables that the appraiser used
- Clear, descriptive photographs (either in black and white or color) that show the front of the subject property, and that are appropriately identified. (Photographs must be originals that are produced either by photography or electronic imaging); and
- Any other data (as an attachment or addendum to the appraisal report form) that are necessary to provide an adequately supported opinion of market value

SCOPE OF WORK, STATEMENTS OF ASSUMPTIONS AND LIMITING CONDITIONS, APPRAISAL CERTIFICATIONS

Appraisers should adhere to the modified language to be used for both desktop appraisals and exterior-only inspection reports submitted in accordance with agency guidance.

VIRTUAL INSPECTIONS

Virtual inspection methods to augment the data and imagery (e.g. Skype) may be used for either a desktop appraisal or an exterior-only appraisal only. All interior and exterior appraisals still require the appraiser to perform an onsite inspection of both the interior and exterior of the property.

APPRAISAL TYPE IDENTIFICATION

For an appraisal with an exterior-only inspection or a desktop appraisal that is completed on a form for an interior and exterior inspection (e.g., Form 70), as permitted above, the appraisal report must include, in the “Map Reference” field, the corresponding text identifier that verifies the type of appraisal completed; specifically, “exterior” or “desktop”. No other words or phrases may be used or included.

COMPLETION REPORTS (1004D)

With exception to construction and renovation financing, when a prior appraisal report was completed “subject to” and requires a final inspection on Form 1004D/442, a letter from the borrower confirming that the work is completed will be acceptable in lieu of the appraiser certification. Additional evidence of completion must be provided, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation.

NEW CONSTRUCTION PROPERTIES-PURCHASE ONLY

For new construction properties where the original appraisal report was completed “subject to completion per plans and specifications,” if the lender is unable to obtain a completed Appraisal Update and/or Completion Report (Form 1004D/442) as a result of COVID-19 related issues, a [Completion of Construction Certification](#) may be provided.

APPRAISAL WAIVER EXPANSION- FREDDIE MAC

In order to reduce contact between appraisers, homeowners, and home purchasers, it is encouraged to accept an appraisal waiver (PIW or ACE/PIA) offering provided through DU or LPA when eligible. Effective for new submissions and resubmissions to LPA on and after March 29, 2020, Freddie Mac is expanding ACE/PIA offerings to include certain cash-out and “no cash-out” refinances.

	Cash-Out Refinances	Limited Cash Out Refinances
Property Type	Max total LTV (TLTV)	
Owner Occupied	≤70%	≤90%
Second Home	≤60%	≤90%

COMMON ERRORS

- Incorrect Appraisal Form used (e.g. exterior-only appraisal on form 1004)
- Certifications provided with the appraisal are incorrect
- Use of extraordinary assumptions when performing an exterior appraisal without supporting documentation

For additional guidance, please refer to the following

- [Fannie Mae COVID Selling-Related FAQs](#)
- [Freddie Mac COVID Selling-Related FAQs](#)