



# **Appraiser Independence Requirements**

## **Frequently Asked Questions**

### **Scope of Coverage**

#### **1. What loans are affected by Appraiser Independence Requirements (AIR)?**

AIR applies to all conventional, single family (1-4 unit) loans originated on or after October 15, 2010.

#### **2. Does AIR apply to non-origination valuation activities such as appraisals performed for loss mitigation activities?**

No. AIR only applies to the loan origination process. AIR does not apply to a lender's foreclosure/REO process, workouts, or any other type of loss mitigation activity.

#### **3. Does AIR apply to other valuation methods (i.e., automated valuation models, broker price opinions, tax assessments, etc.)?**

No. AIR only applies to appraisals.

#### **4. Does AIR change any of Freddie Mac's requirements regarding the role of the appraiser?**

No. Freddie Mac's Guiderequirements for appraisers remain the same. We require the appraiser to provide complete and accurate reports; to report neighborhood and property conditions in factual and specific terms; to be impartial and specific in describing favorable or unfavorable factors; and to avoid the use of subjective, racial, or stereotypical terms, phrases, or comments in the appraisal report. The opinion of market value must represent the appraiser's professional conclusion, based on market data, logical analysis, and judgment.

Additionally, it is important to note that when an appraiser signs Freddie Mac's residential appraisal report form, the appraiser is also certifying the following:

\* "I have knowledge and experience in appraising this type of property in this market area."

\* "I am aware of, and have access to, the necessary and appropriate public and private data sources, such as multiple listing services, tax assessment records, public land records, and other such data sources for the area in which the property is located."

### **Selection of Appraisers**

#### **5. What does it mean to be appropriately trained and qualified in the area of real estate appraisals?**

Each lender must determine what constitutes adequate training and qualifications. At a minimum, the trained and qualified individual must understand Freddie Mac's appraisal requirements, appraisal regulations and enforcement, and the Uniform Standards of Professional Appraisal Practice.

**6. Are lenders permitted to use appraisals completed by appraisers who have been selected or retained by a mortgage broker or real estate agent?**

No. Lenders may not accept appraisal reports completed by an appraiser selected, retained or compensated in any manner by mortgage brokers or real estate agents.

**7. Can trainee appraisers still complete appraisals?**

Trainees can continue to perform appraisal work. The supervisory appraiser who signs the report must meet the licensing/certification requirements.

**8. How do lenders determine the correct process for selecting an appraiser?**

Lenders must comply with the following requirements related to the selection of an appraiser:

- \* Sellers must select appraisers in compliance with AIR.
- \* Appraisers must be certified or licensed in the state in which the property is located, and must be eligible to perform appraisals in that state.
- \* Appraisers must be familiar with the local market in which the property is located, must be competent to appraise the subject property type, and must have access to the data sources needed to develop a credible appraisal.

For additional information about appraisers and appraisal requirements, please refer to Guide Exhibit 35 and Guide Bulletin 2010-23 issued on October 15, 2010.

**9. Are lenders required to select appraisers on a rotating basis?**

No. Lenders may choose to use a rotating roster of appraisers, but this is not a requirement.

**10. When selecting an appraiser, may lenders use a pre-approved appraiser list or panel?**

Yes. Lenders may use a pre-approved list or panel to select an appraiser, provided that (1) any employees of the lender tasked with selecting appraisers for the list are independent of the loan production staff; and (2) the loan production staff is not involved in selecting appraisers from the list for particular appraisal assignments.

**11. May a mortgage broker provide the lender with an approved appraiser list for the lender to use when ordering appraisals for that particular lender?**

No. A mortgage broker may not provide lenders with an approved appraiser list for their use.

**12. May a person on a lender's staff who is not part of the loan production staff and does not receive a bonus or commission based on loan closings provide an appraisal management company (AMC) a list or panel of appraisers to use for loans involving a specified mortgage broker, real estate agent or loan officer?**

No person may provide an AMC a list or panel of appraisers to be used for loans involving a specified mortgage broker, real estate agent, or loan officer. AIR specifically prohibits lenders

from accepting appraisal reports completed by an appraiser selected, retained or compensated in any manner by mortgage brokers and real estate agents. Mortgage brokers and real estate agents must not be involved in the selection of appraisers for an approved panel or specific assignments under any circumstances.

### **In-House Appraisers**

**13. Are lenders permitted to use in-house appraisers to obtain appraisals?**

Yes. Lenders are permitted to use in-house appraisers to obtain and prepare appraisal reports if the lender is in compliance with Guide Exhibit 35.

**14. May a correspondent lender use in-house appraisers?**

Yes. A correspondent lender may use in-house appraisers if the lender follows the criteria Guide Exhibit 35.

### **Appraisal Management Companies**

**15. Are lenders required to order appraisals through an AMC?**

No. A lender may order appraisals directly from an individual appraiser.

**16. Are lenders allowed to use appraisals ordered by AMCs that provide other settlement services for the same transaction?**

Yes. Lenders may use AMCs that provide other settlement services to obtain appraisals as long as the AMC is in compliance with AIR.

**17. Can brokers select a specific AMC if the lender works with more than one AMC?**

No. If the lender works with more than one AMC, the lender must select the AMC. The mortgage broker cannot select from a list of approved AMCs.

### **Mortgage Brokers**

**18. Can a broker initiate an appraisal request through a lender's designated AMC?**

Yes. This process is permissible provided all of the following criteria are met:

- \* The AMC is specifically authorized by the lender to act on its behalf and the AMC is not acting on behalf of the mortgage broker.
- \* The AMC selects, retains, and provides for payment of all compensation to the appraiser on the lender's behalf.
- \* The appraiser's client is the lender and the appraiser correctly identifies the lender as the lender/client on the appraisal report.
- \* The lender has policies and procedures in place that comply with AIR.
- \* The lender ensures that the AMC has policies and procedures in place that comply with AIR.

**19. May a lender direct a broker to use a Web portal set up either by the lender, or by the lender's authorized agent, through which the broker inputs a request for an appraisal and then triggers the lender's system to order an appraisal?**

Yes. A lender may direct a broker to use a Web portal in this manner.

**20. Does AIR permit a broker to select an appraiser from the lender's list of approved appraisers if the lender is responsible for the relationship with the appraiser, including compensation?**

No. Lenders are not permitted to rely on an appraisal if the broker had a role in selecting, retaining, or compensating the appraiser.

### **Ordering Appraisals**

**21. What does it mean to "order" an appraisal?**

Ordering an appraisal means engaging the appraiser's services to perform an appraisal of a specific property. The party that orders an appraisal is the party that the appraiser identifies in the lender/client field on the appraisal report.

**22. May an AMC affiliated with, or that owns or is owned in whole or in part, by the lender or a lender-affiliate, order appraisals?**

Yes. An AMC affiliated with, or that owns or is owned in whole or in part by the lender or a lender-affiliate, may order appraisals if the AMC meets the requirements of AIR.

**23. Can noncommissioned employees who order appraisals report to the same person as the loan production staff?**

No. AIR prohibits any person who reports to an individual connected to the loan production staff from ordering an appraisal.

**24. Is appraiser communication with the loan production staff acceptable when the appraiser cannot gain access to a property or locate an address?**

Communication between the loan production staff and the appraiser for issues of this nature are permissible under AIR. Conversations that relate to or have an impact on valuation, however, are not permitted under AIR.

**25. Is an appraiser prohibited from communicating with real estate agents or third parties acting on behalf of the lender involved in the subject transaction?**

No. AIR does not prohibit the appraiser from speaking with real estate agents or third parties acting on behalf of the lender. Information provided by real estate agents or any third party acting on behalf of the lender must be independently verified by the appraiser. An appraiser must certify that information received from anyone with a financial interest in the sale or financing of the subject property was verified by a disinterested party (see Appraiser's Certification #10 on Freddie Mac Form 70, Uniform Residential Appraisal Report). It is not a requirement that the disinterested third party be another appraiser. Disinterested third-party

sources may include, but are not limited to: public records, multiple listing services and other real estate agents that do not have an interest in the subject transaction.

### **Transfer of Appraisals**

**26. A mortgage broker submits a loan to Lender A, who orders an appraisal. The broker later decides to submit the loan to Lender B because Lender B offers better terms, or for another reason. Assuming the mortgage broker has no control over, or involvement in the appraisal assignment, may the appraisal obtained by Lender A be used by Lender B?**

Yes. A lender may accept an appraisal from a different lender if that appraisal complies with AIR. In this scenario, since Lender A is the original lender, Lender A must be named as the client on the appraisal report.

**27. Can lenders accept appraisals transferred from another lender?**

A lender may accept an appraisal from a different lender if the appraisal is obtained in a manner consistent with AIR, and the lender receiving the transferred appraisal determines that the appraisal conforms to its own requirements and is otherwise acceptable.

**28. Can lenders accept an appraisal from an AMC specifically authorized by a different lender to act on its behalf?**

Yes. If the lender receiving the transferred appraisal determines the appraisal was obtained in a manner consistent with AIR that the appraisal conforms to the lender's requirements and is otherwise acceptable.

**29. May an appraiser update an appraisal for another lender?**

Yes. An appraiser is permitted to perform an update of an appraisal for another lender.

**30. What documentation is required during an appraisal transfer to demonstrate that the lender transferring the appraisal is complying with AIR?**

Each lender must develop its own documentation requirements to ensure compliance with AIR, based on its business model and processes.

**31. AIR allows Lender B to originate a loan using an appraisal transferred by Lender A if Lender B determines that the appraisal with written assurances that the appraisal was obtained in a manner consistent with AIR, conforms to Lender B's requirements for appraisals and is otherwise acceptable. Will Freddie Mac hold Lender B liable for remedies if it is discovered after the transfer that Lender A did not obtain the appraisal in a manner consistent with AIR?**

Yes. As with all other representation and warranties under the Guide, Freddie Mac will hold Lender B, the lender who sold the loan to Freddie Mac, fully responsible for any violations of AIR and our Guide requirements.

## **Second Appraisals**

### **32. Is a second appraisal or AVM permitted in a lender's foreclosure/REO processes?**

Yes. AIR does not apply to the lender's foreclosure/REO process. It applies to all conventional mortgages that are sold to Freddie Mac regardless of the transaction type and only applies to new mortgage originations if the new mortgage that finances the purchase of the REO is sold to Freddie Mac.

### **33. Are lenders permitted to order a second appraisal or AVM on high-value or unique properties to ensure the most accurate value is obtained?**

Yes. As long as such appraisal or AVM is done pursuant to:

- \* Written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting guidelines.

- \* Lender adherence to a policy of selecting the most reliable appraisal as stated in Section II of AIR.

### **34. Does AIR specifically prohibit a lender from ordering a second appraisal?**

No. A lender is only prohibited from ordering a second appraisal if the lender is attempting to influence the outcome of the first appraisal or for the purpose of value shopping. For risk mitigation of certain loan products, it may be a common practice for a lender to order more than one appraisal. Section II of AIR specifically addresses when it is permissible to order second appraisals.

### **35. Are appraisers prohibited from reviewing reconsideration of value requests?**

No. Reconsideration of value requests that are based on correcting factual errors (such as incorrect square footage, incorrect number of rooms, etc.) are permissible.

## **Payment for Appraisals**

### **36. Who may directly pay an appraiser for appraisal services?**

Only the lender or a third party specifically authorized by the lender (including but not limited to, appraisal companies, AMCs, and correspondent lenders) may directly pay an appraiser for appraisal services.

Lenders may charge the broker or the borrower for the appraisal fee. An AMC may accept the appraisal fee from the broker or the borrower, provided:

- \* The AMC is specifically authorized by the lender to act on its behalf,
- \* The AMC accepts the borrower/broker's payment on behalf of the lender and not on behalf of the appraiser,
- \* The AMC selects, retains, and provides for payment of all compensation to the appraiser on the lender's behalf (not the borrower's or mortgage broker's behalf),
- \* The appraiser's client is the lender and the appraiser correctly identifies the lender as the lender/client on the appraisal report,
- \* The lender has policies and procedures in place that comply with AIR, and

\* The lender ensures that the AMC has policies and procedures in place that comply with AIR.

**37. Is an appraiser permitted to collect payment for the appraisal directly from the borrower?**

No. AIR requires the lender or any third party specifically authorized by the lender to select, retain, and provide for all compensation to the appraiser.

**38. Are borrowers precluded from directly paying a mortgage broker, lender or AMC for an appraisal?**

No. AIR does not prohibit a borrower from directly paying a mortgage broker, a lender or AMC for an appraisal. However, the borrower is prohibited from directly paying the appraiser for an appraisal.

**39. Are lenders required to provide appraisals free of charge?**

No. Lenders must provide a free copy of any appraisal report completed in association with the specific loan. Lenders may require the borrower to reimburse them for the cost of the appraisal.

**Appraisal Report Copies**

**40. AIR requires that lenders provide the borrower with a copy of the appraisal report at least three business days prior to the closing of the loan unless the borrower waives this requirement. Is Saturday included as a business day?**

Yes. For this requirement, we consider Monday through Saturday business days. Sundays and legal holidays are not considered business days. The lender must provide the copy promptly upon completion of the appraisal, no less than three business days prior to closing. The lender may use any means to provide the copy including, but not limited to, mail, e-mail (electronic message), or overnight delivery as long as the borrower receives the copy no less than three business days prior to closing.

**41. Is "closing" of the loan defined as the date the documents are executed or the date the funds are disbursed?**

For this requirement, we define "closing" as the date the borrower executes the loan documents.

**42. What are the requirements for the borrower's receipt of the appraisal?**

AIR requires that a borrower be provided a copy of the appraisal no less than three business days prior to the closing of the loan, but does allow the borrower to waive this three-day requirement.

**43. A borrower must be provided with a copy of the appraisal at least three days prior to closing unless the borrower signs a waiver stating that they do not wish to receive a**

**copy of the appraisal. When do borrowers need to waive this requirement; can it be at loan closing?**

No. AIR requires lenders to provide the borrower with a copy of the appraisal at least three days prior to the loan closing unless the borrower waives the requirement. If the borrower waives the requirement the waiver must be obtained three days prior to the closing of the mortgage..

**44. Can a loan closing proceed where the lender in good faith and according to their policies and procedures sent a copy of the appraisal to the borrower in accordance with the three day requirement, but the borrower did not receive the copy of the appraisal prior to the scheduled closing?**

In those rare instances where the lender followed its policies and procedures but the borrower did not receive the appraisal three days prior to closing, the loan may close without delay if the borrower waives the three-day requirement and is provided a copy of the appraisal on the day of closing. While our guidelines do not specifically require written documentation of the borrower's waiver or receipt of the appraisal three days prior to closing, we advise lenders to have policies and procedures in place so they can document the borrower's receipt of the appraisal or the waiver should questions arise.

**45. How do we document the delivery of the appraisal or the waiver?**

Freddie Mac does not require a specific method for documenting either the borrower's receipt of the appraisal or a waiver. We advise lenders to develop their own policies and procedures to document the borrower's receipt of the appraisal or the waiver. Documentation should be in writing (e.g., notes regarding a borrower's phone call, borrower's execution of a form, etc.). Our guidelines do not require that the waiver be in writing nor does they prohibit a waiver, given in a timely manner, be recorded at some later point when the parties are available. A lender may obtain a waiver through a phone call, e-mail or other means prior to the three-day period which is then recorded in writing at the settlement table or some other time.

**46. Can a lender create a form to document the borrower's waiver of the right to receive a copy of the appraisal report at least three days prior to the closing?**

Yes. A lender may choose to create a form to document the borrower's waiver. The borrower must acknowledge agreement of the waiver, but the lender can determine the method of agreement.

**47. When does the three-day period begin?**

The three-day period begins on the day of the receipt of the appraisal. For example, in a non-waiver situation, where a borrower received an appraisal on Monday, the closing could be held on Wednesday. Saturday is included for purposes of counting the three-day period. Sundays and legal holidays are not included for counting the three-day period.

**48. Does the three-day right of rescission in a refinance transaction constitute a valid three-day waiver period for receipt of the appraisal under AIR?**



No. The rescission period in a refinance transaction does not constitute a valid three-day period.

**49. Is it acceptable for a lender to provide brokers and loan production staff with a copy of the completed appraisal?**

AIR does not specify when or to whom a copy of the appraisal can be provided. It states that borrowers must receive a copy of the appraisal a minimum of three business days prior to closing unless they waive the three-day requirement.

**50. Can an appraiser's information be omitted from the appraisal report prior to sending it to the borrower?**

No. A complete, unaltered copy of the appraisal report must be provided to the borrower.

**51. If two appraisals are obtained as part of the underwriting process, does a lender have to provide copies of both appraisal reports to the borrower or only a copy of the appraisal used to determine value?**

A borrower must be provided with a copy of "any" appraisal report; therefore, copies of all appraisal reports obtained must be provided to the borrower.

**52. Please clarify the requirement that a completed appraisal report be provided promptly upon completion?**

The terms "promptly upon completion" and "completed appraisal" refer to when the lender has reviewed and accepted the appraisal to include any changes or corrections required.

### **Appraisal Reviews**

**53. If a lender finds an error or problem with an appraisal, is the lender allowed to contact the appraiser to correct the error?**

Yes. Nothing prohibits the lender from requesting that an appraiser (i) provide additional information or explanation about the basis for valuation or (ii) correct factual errors in an appraisal report. Anyone on the lender's staff or an authorized third party of the lender may discuss factual errors in the appraisal report with the appraiser.

**54. Is a lender's in-house appraiser permitted to adjust the value of an appraisal during an appraisal review as part of a pre-funding or post-funding quality control process?**

Yes. A lender may use an appraisal that has been adjusted by an in-house appraiser during a review process. AIR does not prohibit the underwriting of an appraisal by a lender's underwriting staff nor does it prohibit a lender's due diligence in originating a loan.

**55. Does AIR prohibit the use of foreclosures as comparable sales?**

No. Freddie Mac does not prohibit appraisers from using Real Estate Owned (REO), foreclosures, or short sales as comparables sales. However, if the appraiser determines that

REOs, foreclosures, or short sales are representative of the properties available to typical purchasers for the market in which the property is located, appraisers must consider their use. For more guidance on appraisal requirements, please review Guide Chapter 44 and Guide Exhibit 35

**56. Does AIR require or prohibit the use of foreclosure data by appraisers?**

No. AIR does not address foreclosure data. It is up to the appraiser to determine if the foreclosure data is applicable and appropriate or not.

**Compliance**

**57. Is a quality control review required for all valuation methods included in the mortgage file (i.e., full appraisal, AVM, desk review, field review)?**

Yes. The quality control review must be performed on the valuation method that was used for determining the loan-to-value ratio for the transaction.

**58. Is a loan eligible for sale to Freddie Mac if the lender purchased the loan from a correspondent that did not comply with AIR in originating that loan?**

No. It is the lender's responsibility to ensure that all loans it purchases with intent to deliver to Freddie Mac comply with all of our Guide requirements. Effective October 15, 2010, Freddie Mac will not purchase mortgages from Sellers that have not complied with Guide Exhibit 35 with respect to single-family mortgages that are delivered to Freddie Mac.

**59. What are the penalties for violations of AIR?**

Freddie Mac will treat non-compliance with AIR the same as any other breach of a Seller's representations and warranties. This could include suspension or termination of the lender's eligibility to sell loans to Freddie Mac if the lender fails to remediate violations.

**60. How will Freddie Mac ensure that a lender is in compliance with AIR?**

Compliance with AIR will be part of the lenders' operational review.

**61. My institution is already required to comply with federal regulations regarding appraisals. Does this exempt my institution from AIR?**

No. All Freddie Mac Sellers must comply with AIR.