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BEST PRACTICES: UNDERWRITING

Misrepresentation of occupancy

Sellers should review the criteria they use to evaluate whether the subject property is a Borrower's Primary Residence. The Seller should identify and investigate the following "red flags":

- Significant or unrealistic commuting distance from the subject property to the Borrower's place of employment
- Borrower is purchasing a smaller or less expensive home than their current Primary Residence and has not sold their Primary Residence
- Borrower does not document the intent to rent or sell their current residence
- Appraisal report reflects "Occupant" as a tenant or as vacant on an owner-occupied refinance application

BEST PRACTICES: APPRAISALS

To help ensure that Seller/Serviceers meet our appraisal requirements, Freddie Mac is recommending that they adopt the following best practices to assist them with determining that the appraisal is acceptable.

Appraiser qualifications

- Sellers should review appraisers' licensing and performance at least once each licensing cycle
- Sellers should consider membership in a professional appraisal organization as a qualification criterion, but membership or lack of membership in such an organization should not be the only criterion for or against approving appraisers, or selecting appraisers for specific assignments

Seller staff qualifications

- Staff must be trained to properly underwrite the appraisal to ensure that the appraiser's opinion of value meets the definition of "market value," and that the appraisal is accurate and fully supported
- Staff should be familiar with Uniform Standards of Professional Appraisal Practice, applicable laws and Freddie Mac appraisal requirements

Staff must be familiar with the Home Valuation Code of Conduct (HVCC)

Appraiser selection

- Ensure that turn times for appraisers to perform appraisals are reasonable as unreasonable turn times may adversely affect the quality and accuracy of the appraisals
- Some markets or properties may require that the appraiser have access to non-traditional data sources in order to provide the Seller with a credible appraisal. In such cases, the Seller should ensure that the appraiser has access to the necessary market data to support any conclusions about the market.

Appraisal reviews

- Underwriting and any appraisal reviews should include the following:
 - All appraisal photos
 - Maps used to identify the location of comparable sales in relation to the subject property
 - Sales history of the Mortgaged Premises to determine consistency with other file documentation

- Current listings and pending sales to support any adjustments. (Ensure that if the appraiser determines that older sales are more representative of the subject property, the appraiser has provided current listings or pending sales to support any time adjustments or lack of adjustments for the differences in the age of the sales.)
- Comparison of the original appraisal report or inspection report to the review appraisal report, if one was obtained, for conflicting information; the Seller should have policies and procedures in place to reconcile conflicting information
- Review the appraiser signature, license number and date of the report
- Have processes in place in which the appraisal, loan application and title work are compared for consistency, and a comparison of the application and legal documents to the property description is provided by the appraiser
- Perform random and targeted reviews
- Be aware of market trends in the markets in which Seller originates Mortgages
- Sellers should also thoroughly review the Mortgage file to identify and investigate the following appraisal red flags:
 - Comparables not independently verified or recorded
 - Value not supported by the comparables, and/or the comparables are not appropriate
 - Incorrect appraisal report form or inspection type for the type of transaction
 - Inconsistencies or unexplained adjustments
 - Typographical and mathematical errors
 - Appraiser is not familiar with the market in which the property is located
 - Appraisal ordered prior to the sales contract date
 - Completion certification required and not in the Mortgage file
- The Seller's due diligence in monitoring the quality and accuracy of appraisals is part of the Seller's responsibility for the quality of its lending. Sellers' policies and procedures for valuation should address the following:
 - The selection of appraisers in compliance with the HVCC and Freddie Mac requirements and monitoring the quality and accuracy of appraisals performed by appraisers
 - Knowledgeable staff underwriting appraisals and performing quality control for appraisals
 - Appraiser's opinion of value reflects the cash-equivalent price without undue stimulus such as concessions
 - Use of automated valuation models and other tools to monitor appraisal quality