



TO: Freddie Mac Sellers

April 1, 2014

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SUBJECT: FREDDIE MAC PROPERTY AND APPRAISAL REQUIREMENTS FOR PROPERTIES LOCATED IN RURAL MARKET AREAS

This *Single-Family Seller/Servicer Guide* (“Guide”) Bulletin is being issued in response to a Federal Housing Finance Agency directive to Freddie Mac to provide certain clarifications and guidance regarding property and appraisal requirements for properties located in rural market areas.

Freddie Mac purchases Mortgages secured by residential properties in all market areas: rural, urban and suburban. Freddie Mac recognizes that the appraisal and underwriting of properties located in rural market areas may be challenging and may present issues that do not arise with properties located in suburban and urban areas. This Bulletin reinforces Freddie Mac’s ongoing commitment to purchase eligible Mortgages secured by properties in rural locations, addresses certain misconceptions and provides additional guidance regarding Freddie Mac requirements on:

- Appraiser selection
- Property eligibility and unique properties
- Selection of comparable sales and analysis

APPRAISER SELECTION

The Seller may select an appraiser for any appraisal assignment, but the Seller must ensure that the selected appraiser has the appropriate local market knowledge and experience necessary to produce an accurate opinion of the market value of the property. Appraisers, like Sellers, face unique challenges in the appraisal of properties located in rural market areas, which makes appraiser selection an important consideration for the Seller. Our property appraisal requirements enable appraisers to exercise prudent judgment in developing an opinion of the property’s market value. The Seller is responsible for determining the eligibility of the property and the acceptability of the appraisal report.

Appraisal management companies and other third-party vendors

A common misconception is that the Appraiser Independence Requirements, as specified in Guide Exhibit 35, *Appraiser Independence Requirements*, require Sellers to use third-party vendors such as appraisal management companies (AMCs) to order appraisals. In fact, Sellers are not required to use an AMC or any other third-party vendor to order appraisals.

We require Sellers to obtain appraisals in a manner consistent with the Appraiser Independence Requirements. The Appraiser Independence Requirements allow the use of staff or in-house appraisers and independent fee appraisers.

The Appraiser Independence Requirements allow Sellers to select any of the following:

- In-house or staff appraisers whose function is separate and independent of loan production staff influence and interference
- Independent fee appraisers
- Third-party vendors
- AMCs

Smaller Seller exception to Appraiser Independence Requirements

Many smaller Sellers perceive the use of an AMC as a requirement to achieve separation between Mortgage production functions and the appraisal ordering and quality assurance functions. Many Sellers have chosen to use AMCs to ensure compliance with the Appraiser Independence Requirements. This is particularly true for smaller Sellers who do not have sufficient staff to allow for a distinct separation between Mortgage production and quality assurance functions.

The Appraiser Independence Requirements, however, provide an exception for smaller Sellers in situations where the Seller's small size and limited staff do not permit the separation of these functions. In such cases, the Seller must be able to clearly demonstrate that it has prudent safeguards in place to isolate its appraisal ordering and collateral review functions from influence or interference from its Mortgage production process. While Sellers must ensure that the individuals ordering appraisal reports, reviewing appraisal reports and underwriting the property based on appraisal reports are independent of the Mortgage production staff, they are not required to use AMCs in order to achieve separation.

Guide Section 44.3, *General Appraisal Requirements*, has been updated to include more guidance about these requirements.

PROPERTY ELIGIBILITY AND UNIQUE PROPERTIES

Determining property eligibility may be challenging in rural market areas. When determining property eligibility for rural properties, zoning, land use, property type, property condition, marketability and other influences must be considered, just as they are when considering urban and suburban properties. However, rural properties may have mixed uses and unique characteristics that can make determining property eligibility challenging. Rural locations may be relatively undeveloped market areas that consist of a variety of different property types and land uses, such as agricultural properties, undeveloped land and land development properties.

A common misconception is that Freddie Mac does not purchase Mortgages secured by properties in market areas that contain non-residential property uses such as agricultural properties, undeveloped land and land development properties. To be eligible for sale to Freddie Mac, the Mortgage must be secured by Mortgaged Premises that is residential based on the property characteristics, zoning and land use. The existence of non-residential property types or land uses within the market area is a characteristic that the appraiser considers when performing the market area analysis, but non-residential properties or land uses in the market area do not make the residential properties in those locations ineligible. Neighborhood or market area characteristics and market conditions tend to vary based on property location. Characteristics that are typical in certain locations may not exist in other locations; therefore, they must be viewed in context with the type of property location.

In the underwriting process, Sellers must determine whether properties with outbuildings, such as a barn or stable, are residential or non-residential. A property with a small barn or stable may be acceptable if the contributory value of the outbuilding(s) is minimal and the appraiser demonstrates, through the use of comparable sales with similar characteristics, that it is typical for residential properties in the market area. However, if the property has a large outbuilding, such as a large barn or multiple outbuildings, it may indicate that the property is agricultural or non-residential and ineligible for securing a Freddie Mac Mortgage.

Another misconception is that we do not purchase Mortgages secured by unique properties. When the subject property does not conform to its neighborhood in terms of type, design, age, or the materials and techniques used in its construction, the appraiser must evaluate and report on the effect of the nonconformity on the property's value and marketability. The appraiser may use more traditional homes as comparable sales for unique properties as long as the appraiser determines and adjusts for any differences between the subject property and the comparable sales, and justifies and supports the use of the comparable sales in the appraisal report.

Section 44.2, *General Property Eligibility Requirements*, has been updated to include more guidance about these requirements.

SELECTION OF COMPARABLE SALES AND ANALYSIS

Rural areas often have much less real estate sales activity than more populated locations and the property sales in rural locations often involve a wide variety of properties. Given the potential challenges with appraising properties in these market areas, the appraiser must be knowledgeable about the varying conditions that characterize properties in a particular geographic area.

Properties in rural locations also often have relatively large sites as compared to other locations, and there may be a lack of truly comparable sales due to the relatively low number of recent sales transactions in the market area. In such cases, appraisers may have to use comparable sales that are located a considerable distance from the subject property or comparable sales that are not similar to the subject property.

A common misconception is that for rural market areas, Freddie Mac does not allow the appraiser to use older comparable sales, comparable sales that are distant from the subject property and comparable sales that are not similar to the subject property. In areas with less real estate activity such as rural market areas, Freddie Mac allows the appraiser to use older comparable sales, comparable sales that are farther from the subject property, and comparable sales that have differing degrees of comparability to the subject property as long as the appraiser can justify and support such use in the appraisal report. Freddie Mac's property and appraisal requirements:

- Allow appraisers to use comparable sales that are older than 12 months
- Do not require comparable sales to be any particular distance from the subject property. This is especially relevant in rural areas due to lack of housing density. For example, appraisers may have to use comparable sales that are farther than comparable sales used in an appraisal of a property in a suburban location.
- Allow appraisers to use comparable sales that may not appear to be similar to the subject property. This is particularly important in rural market areas due to the relatively low sales volume and the wide variety of properties often found in these market areas.

Section 44.15, *Property Description and Analysis*, has been updated to include more guidance about these requirements.

CONCLUSION

Freddie Mac remains committed to purchasing eligible Mortgages secured by properties in rural locations. We have provided additional guidance and addressed misconceptions relating to appraiser selection, property eligibility and unique properties, and selection of comparable sales and analysis in order to assist Sellers in their appraisal and underwriting processes.

If you have any questions about the changes announced in this Bulletin, please contact your Freddie Mac representative or call (800) FREDDIE.

Sincerely,



Laurie Redmond
Vice President
Offerings Effectiveness