

Figure 4.1 The Valuation Process

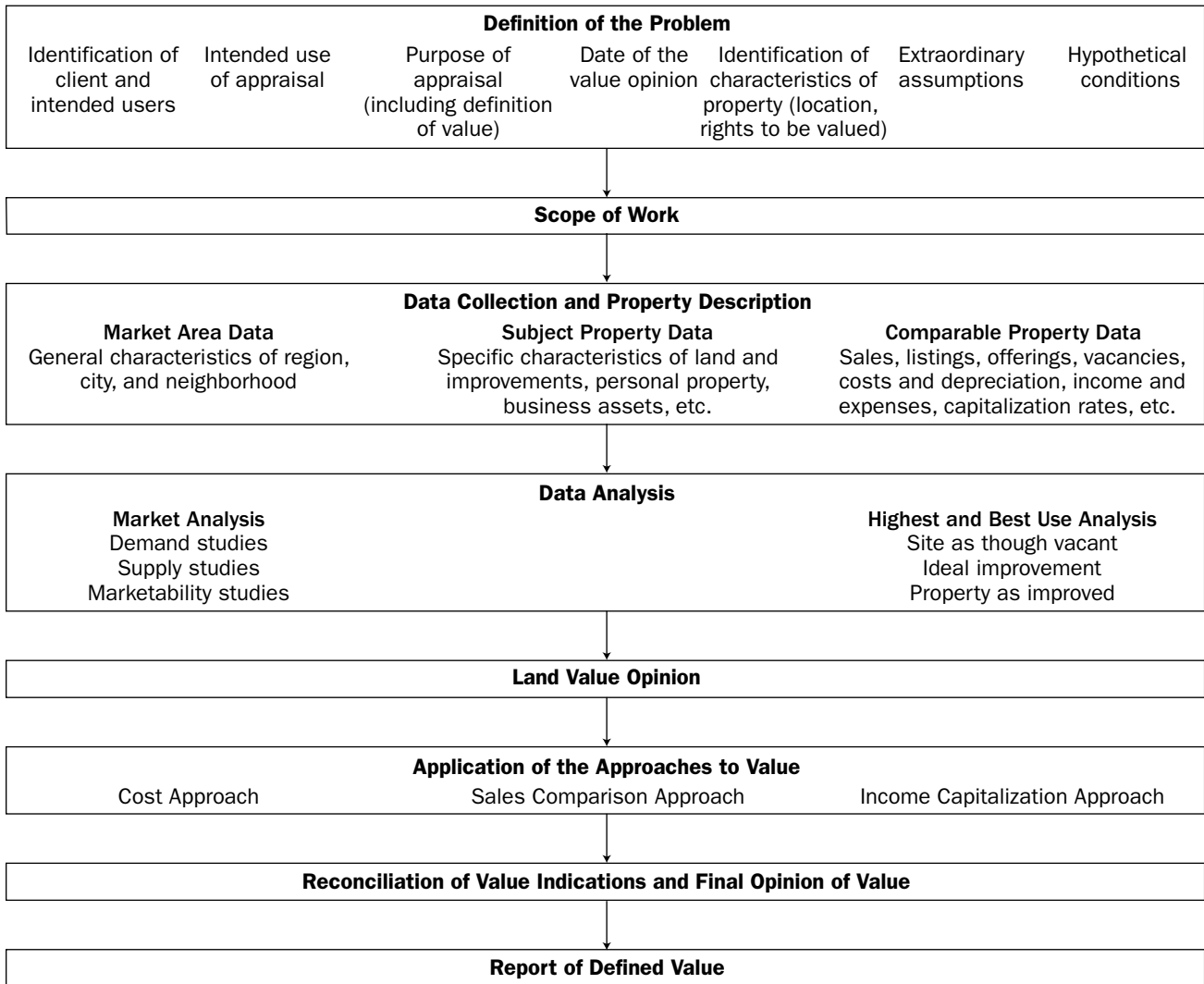


Figure 4.2 Fannie Mae Guidelines for Residential Appraisers

Fannie Mae Single Family Selling Guide, Part XI: Property and Appraisal Guidelines

XI, 406.03: Adjustments to Comparable Sales (06/30/02)

Each comparable sale that is used in the sales comparison approach to value must be analyzed for differences and similarities between it and the property that is being appraised. The appraiser must base his or her analysis and any adjustments to the comparable sales on the market data for the particular neighborhood and for competing locations—not on predetermined or assumed dollar adjustments. If an appraiser's adjustments to comparable sales (or the reconciliation of the comparable sales) are based on unsupported assumptions or personal opinion that cannot be supported by market data, poor quality appraisals that could have a discriminatory effect may result.

Comparable sales must be adjusted to the subject property—except for sales and financing concessions, which are adjusted to the market at the time of sale. The appraiser must make appropriate adjustments for location, terms and conditions of sale, date of sale, and the physical characteristics of the properties. "Time" adjustments must be representative of the market and should be supported by the comparable sales whenever possible. The adjustments must reflect the time that elapsed between the contract date (or the date of the "meeting of the minds") for the comparable sale and the effective date of the appraisal for the subject property.

The subject property is the standard against which the comparable sales are evaluated and adjusted. Thus, if an item in the comparable property is superior to that in the subject property, a negative adjustment is required to make that item equal to that in the subject property. Conversely, if an item in the comparable property is inferior to that in the subject property, a positive adjustment is required to make that item equal to that in the subject property. If an item in a comparable property is equal to that in the subject property, no adjustment is required. [Page : 1163 06/30/02]

A. Quantitative sales comparison analysis. Most appraisal forms require the appraiser to use a quantitative sales comparison analysis in which he or she assigns a dollar value to reflect the market's reaction to any features of the comparable sales that differ from those of the subject property. The proper selection of comparable properties minimizes both the need for, and the size of, any dollar adjustments. However, when there are no similar or truly comparable sales for a particular property—because of the uniqueness of the property or other conditions—the appraiser must select comparable sales that represent the best indicators of value for the subject property and make adjustments to reflect the actions of typical purchasers in that market. Dollar adjustments must reflect the market's reaction to the difference in the properties, not necessarily the cost of the difference. Swimming pools, electronic air filters, intercom systems, elaborately finished basements, carpets, and other special features generally do not affect value to the extent of their cost.

We have established guidelines for the net and gross percentage adjustments that underwriters may rely on as a general indicator of whether a property should be used as a comparable sale. Generally, the dollar amount of the net adjustments for each comparable sale should not exceed 15% of the sales price of the comparable. When the adjustments exceed 15%, the appraiser must comment on the reasons for not using a more similar comparable. Further, the dollar amount of the gross adjustments for each comparable sale should not exceed 25% of the sales price of the comparable. The amount of the gross adjustment is determined by adding all individual adjustments without regard to the positive or negative adjustments. When the adjustments exceed 25%, the appraiser must comment on the reasons for not using a more similar comparable.

Source: <http://www.allregs.com/efnma/>