



# Lender Letter (LL-2021-04)

Jan. 14, 2021

## To: All Fannie Mae Single-Family Sellers Impact of COVID-19 on Appraisals

This Lender Letter contains the policies previously published in [LL-2020-04](#) on Dec. 10, 2020, with the changes noted below. We are continuing to collaborate with FHFA and Freddie Mac and will update and republish this Lender Letter as necessary.

Jan. 14, 2021

- Extension of effective date: extending the application dates eligible for these temporary flexibilities to Feb. 28, 2021, unless otherwise noted.
- Content was reorganized and like content was moved closer together (e.g., HomeStyle Renovation content). Two sections were removed (Identification of a Fannie Mae loan and Delivery requirements).

**Effective:** Unless otherwise noted below, these temporary flexibilities are effective for all loans in process and remain in place for loans with application dates on or before Feb. 28, 2021.

### Temporary appraisal requirement flexibilities

On Mar. 23, 2020 we began allowing temporary flexibilities to our appraisal inspection and reporting requirements. As described below, we will accept an alternative to the traditional appraisal required under *Selling Guide* Chapter B4-1, Appraisal Requirements, when an interior inspection is not feasible because of COVID-19 concerns. We will allow either a desktop appraisal or an exterior-only inspection appraisal in lieu of the interior and exterior inspection appraisal (i.e., traditional appraisal).

If a traditional appraisal is not obtained and there is insufficient information about the property for an appraiser to be able to complete an appraisal assignment with a desktop or exterior-only inspection appraisal, the loan will not be eligible for delivery to us.

Loan purpose	LTV ratio	Occupancy	Ownership of loan being refinanced	Permissible appraisals
Purchase*	Per <i>Eligibility Matrix</i>	Principal residence	N/A	Traditional appraisal Desktop appraisal Exterior-only appraisal
	≤ 85%	Second home Investment		Traditional appraisal Desktop appraisal Exterior-only appraisal
	> 85%	Second home		Traditional appraisal
Limited cash-out refinance			Fannie Mae-owned	Traditional appraisal Exterior-only appraisal



Loan purpose	LTV ratio	Occupancy	Ownership of loan being refinanced	Permissible appraisals
	Per Eligibility Matrix	All	Not Fannie Mae-owned	Traditional appraisal
Cash-out refinance			Fannie Mae or not Fannie Mae-owned	Traditional appraisal

\*Excludes construction-to-permanent loans.

**NOTE:** For all loans with LTV ratios greater than 80%, we require mortgage insurance in accordance with our standard Selling Guide policy. Lenders must consult with their mortgage insurance companies to confirm coverage for mortgages using one of the temporary appraisal flexibilities.

## Use of lender variances and temporary appraisal flexibilities

The appraisal flexibilities announced in this Lender Letter may be combined with existing lender variances unless Fannie Mae notifies the lender that it may not combine negotiated terms with these flexibilities.

Regardless of specific lender variances, only Fannie Mae-owned, limited cash-out refinance transactions being sold to Fannie Mae and purchase transactions are eligible for the appraisal flexibility shown in the following table:

Loan purpose	LTV ratio	Occupancy	Ownership of loan being refinanced	Permissible appraisals
Purchase transaction, including new construction properties*	Up to 97%	Principal residence	N/A	Traditional appraisal Desktop appraisal Exterior-only appraisal
	≤ 85%	Second homes and investment properties		Traditional appraisal Desktop appraisal Exterior-only appraisal
Limited cash-out refinance	As permitted in the Selling Guide	All	Fannie Mae-owned	Traditional appraisal Exterior-only appraisal

\*Per guidance above, new construction loans are not eligible for exterior-only appraisals.

A traditional appraisal with an interior and exterior inspections are required for all of the following:

- second home purchase transactions with LTV ratios > 85%,
- limited cash-out refinance transactions when the loan being refinanced is not owned by us, and
- cash-out refinance transactions.

All other requirements for the use of temporary flexibilities included in this lender letter apply.

## Desktop appraisals

For purchase money transactions when an interior and exterior appraisal is not available, lenders are encouraged to obtain a desktop appraisal rather than an exterior-only appraisal.

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, and other third-party data sources to identify the property characteristics.

When a desktop appraisal is performed, reported on Form 1004 or Form 1073, and submitted to us through the Uniform Collateral Data Portal® (UCDP®), the appraisal will be scored by Collateral Underwriter® (CU®). All loans with a CU risk score of 2.5 or less will receive value representation and warranty relief under Day 1 Certainty®. With desktop appraisals, lenders will have the added risk management and efficiency benefit of being able to use CU to aid in the appraisal review process.



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

<b>Property Type</b>	<b>Acceptable Appraisal Form</b>
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	<i>Uniform Residential Appraisal Report (Form 1004)</i>
Condominium unit	<i>Individual Condominium Unit Appraisal Report (Form 1073)</i>
Cooperative unit	<i>Individual Cooperative Interest Appraisal Report (Fannie Mae Form 2090)</i>
Two- to four-unit property	<i>Small Residential Income Property Appraisal Report (Form 1025)</i>
Manufactured home	<i>Manufactured Home Appraisal Report (Form 1004C)</i>

As described below, Freddie Mac and Fannie Mae have worked together to develop documents that include modified appraisal report language for the scope of work, statement of assumptions and limiting conditions, and certifications that must be used with these appraisal forms.

### Exhibits for desktop appraisals

Each desktop appraisal report must include the following exhibits:

- a location map indicating the location of the subject and comparables, and
- photographs of the subject property. We recognize that it may be challenging in some instances to obtain photographs; however, it is expected that the appraiser utilizes all available means to obtain relevant pictures of the subject property.

### Exterior-only inspection appraisals

An exterior-only inspection appraisal may be obtained in lieu of an interior and exterior inspection appraisal for the following transactions:

- purchase money loans
- limited cash-out refinances where the loan being refinanced is owned by Fannie Mae

Lenders will not receive value representation and warranty relief under Day 1 Certainty® for loans with exterior-only appraisals.

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

<b>Property Type</b>	<b>Acceptable Appraisal Form</b>
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	<i>Exterior-Only Inspection Residential Appraisal Report (Form 2055)</i>
Attached condominium unit	<i>Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Form 1075)</i>
Cooperative unit	<i>Exterior-Only Individual Cooperative Interest Appraisal Report (Fannie Mae Form 2095)</i>
Two- to four-unit property	<i>Small Residential Income Property Appraisal Report (Form 1025)</i>
Manufactured home	<i>Manufactured Home Appraisal Report (Form 1004C)</i>



As further described below, Freddie Mac and Fannie Mae have worked together to develop documents that include modified appraisal report language for the scope of work, statement of assumptions and limiting conditions, and certifications that must be used with these appraisal forms.

## Exhibits for exterior-only inspection appraisals

Lenders are reminded that the following exhibits to the appraisal report are required for an exterior-only inspection appraisal:

- a street map that shows the location of the subject property and of all comparable sales 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.

## Revisions to the scope of work, statements of assumptions and limited conditions, and appraiser’s certification

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We recognize that the existing appraisal report forms do not accommodate the revised scope of work, statement of assumptions and limiting conditions, and certifications for some of the scenarios presented. To accommodate the temporary flexibilities in this Lender Letter, Freddie Mac and Fannie Mae have jointly developed the following documents that include modified language to be used with desktop appraisal reports and exterior-only appraisal reports:

- [Modified Set of Instructions, Scope of Work, Statement of Assumptions and Limiting Conditions, and Certification for Desktop Appraisals](#)
- [Modified Set of Instructions, Scope of Work, Statement of Assumptions and Limiting Conditions, and Certification for Appraisals with Exterior-only Inspection](#)

These documents include modified language for the scope of work, statement of assumptions and limiting conditions, and certifications. It is important to note that certification #10 has been removed in recognition that the appraiser may have relied on information from an interested party to the transaction (borrower, realtor, property contact, etc.) and additional verification may not have been feasible. Appraisal reports submitted to us using the flexibilities provided in this Lender Letter must include these documents with the modified language for scope of work, statement of assumptions and limiting conditions, and certifications.

## Additional form instructions for appraisals

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The Map Reference field on the Appraisal Report for appraisals that use the flexibilities provided in this Lender Letter may only contain the word “desktop” or “exterior.” No other words or phrases may be used or included. The Map Reference field should reflect the appraisal type agreed to with the acceptance of the assignment and the minimum scope of work required for the assignment. The appraiser is responsible for determining what is the adequate scope of work for any assignment and may choose to expand the scope of work beyond the minimum required.

## Appraisal waivers

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Lenders are encouraged to accept appraisal waiver offers when eligible and provided through DU to address concerns around contact between appraisers and homeowners. Lenders are reminded to submit the case to DU to determine whether an appraisal waiver is offered before ordering an appraisal. We remind lenders that all *Selling Guide* requirements pertaining to appraisal waivers apply (see *Selling Guide* [B4-1.4-10](#), Appraisal Waivers). We are continuing to monitor the impact of COVID-19 and will evaluate additional appraisal waiver flexibilities if the situation warrants such action.



## Completion reports (Form 1004D)

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We require the *Appraisal Update and/or Completion Report* (Form 1004D) to evidence completion when the appraisal report has been completed “subject to.” For all loans for which a completion certification is not available due to issues related to COVID-19, (excluding HomeStyle® Renovation loans), we will permit a letter signed by the borrower confirming that the work was completed. Lenders must also provide further evidence of completion, which may include photographs of the completed work, paid invoices indicating completion, occupancy permits, or other substantially similar documentation. All completion documentation must be retained in the loan file.

## Virtual inspections for appraisals and renovation loans

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Beginning Apr. 14, 2020, appraisers may use virtual inspection methods to augment the data and imagery that is used for either a desktop appraisal or an exterior-only appraisal. All traditional appraisals require the appraiser to perform a complete onsite interior and exterior inspection of the property. A virtual inspection cannot be used as a substitute for the onsite interior and exterior inspection for a traditional appraisal. Additionally, an onsite interior and exterior inspection is required for the *Appraisal Update and/or Completion Report* (Form 1004D) used to confirm completion of renovation for HomeStyle Renovation loans. Virtual inspections using video and photographs provided by the borrower or contractor can be used to evidence renovation progress to disburse additional renovation funds as described below.

## Flexibilities for HomeStyle® Renovation loans

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**Effective:** These temporary flexibilities became effective Mar. 31, 2020 and are effective until further notice.

We are providing flexibility for inspection requirements for draws for HomeStyle Renovation loans in process. Effective immediately, we will allow lenders and servicers to use a [Completion of Construction Certification](#) indicating the planned work was completed per the schedule on the renovation or installation contract (in lieu of an inspection) to advance additional renovation funds. This letter must be accompanied by supporting evidence such as photographs, site videos, or other proof of completion, like paid invoices. All evidence, including photographs and site videos, must be of sufficient quality and scope for the lender or servicer to confirm the required work was sufficiently completed as outlined in the renovation contract. All evidence must be maintained in the renovation loan file. Lenders may use this flexibility when they are unable to have an inspector complete the onsite inspection due to COVID-19 related issues.

Additionally, we remind lenders that may be having difficulty having renovation completed within the negotiated timeframe that they can contact Fannie Mae to make alternative arrangements for the completion of the project. We require inspections and other documentation to review and approve requested extensions, but we will work with lenders on a case by case basis to determine appropriate alternatives.

We remind lenders that all HomeStyle Renovation loans require a traditional appraisal during the underwriting process. The desktop and exterior-only appraisal flexibilities described [above](#) may not be used for these loans. We also continue to require lenders obtain an *Appraisal Update and/or Completion Report* (Form 1004D) when the work is completed. The Form 1004D, along with other documentation described in *Selling Guide B5-3.2-01*, HomeStyle Renovation Mortgages, is required to remove recourse from the renovation loan.

Lastly, we understand that some lenders may be experiencing delays in obtaining the final title policy or a title policy update to show the removal of all materialman’s liens. We continue to work on these issues and will provide further guidance at a later date.

## HomeStyle Renovation loans in forbearance

We will allow renovation draws while a HomeStyle Renovation loan is in a forbearance status. All program requirements, including the flexibilities applicable to HomeStyle Renovation loans in this Lender Letter, continue to apply.



## Delivery timeframe for HomeStyle Renovation loans when the renovation is completed prior to loan delivery

We are offering flexibility to our temporary requirement that all loans be delivered within six months of the note date for HomeStyle Renovation loans the lender will deliver to Fannie Mae after the renovation has been completed. We will allow our standard seasoning requirement of no more than 12 months after the note date for these loans provided the renovation has been completed according to plans and the loan is delivered with Special Feature Code 279. HomeStyle Renovation loans the lender delivers prior to completion of renovation are subject to the temporary six month delivery seasoning requirement described in Lender Letter [LL-2021-03](#), Impact of COVID-19 on Originations.

## Recourse removal for HomeStyle Renovation loans that were subject to forbearance

**Effective:** These temporary flexibilities became effective May 28, 2020 and are effective until further notice.

We are offering temporary flexibilities for recourse removal on HomeStyle Renovation loans that were subject to COVID-19 related forbearance during the renovation period. For loans to be eligible for these flexibilities, the forbearance must be resolved and the borrower must be actively making mortgage payments under the original mortgage terms.

As long as the loan is not delinquent at the time of the request, a lender may request recourse to be removed upon documentation of completion of renovation on a loan that was subject to forbearance and meets one of the following criteria:

- The borrower continued making regularly scheduled mortgage payments during the forbearance period (no payments were missed). Recourse may be removed upon termination of the forbearance and submission of satisfactory renovation completion evidence.
- The borrower did not make regularly scheduled mortgage payments during the forbearance period (one or more payments were missed or the borrower remitted less than the agreed upon monthly payment one or more times). Recourse may be removed when the borrower has completed a repayment plan and the lender provides documentation that the loan remained current during the repayment period.

For loans requiring a modification agreement or payment deferral plan due to missed payments in forbearance, our existing requirements for loan modifications apply.

Loans where borrowers missed mortgage payments prior to Feb. 1, 2020, or at any time without entering into forbearance during the renovation period continue to be subject to the existing *Selling Guide* requirements for recourse removal on HomeStyle Renovation loans (*Selling Guide* [B5-3.2-01](#), HomeStyle Renovation Mortgages). The timeline to allow recourse to be removed in this circumstance will be measured from the date the borrower resumed making timely payments on the original mortgage terms.

## Flexibilities for new construction loans

Beginning Apr. 14, 2020, for new construction properties where the appraisal is “subject to completion per plans and specifications,” and also when the property is 100% complete but an interior and exterior inspection appraisal cannot be completed, we will permit a desktop appraisal on the forms identified in the following table. Lenders must adhere to the LTV ratio requirements in [Temporary appraisal requirement flexibilities](#), including the requirement that second homes with LTV ratios above 85% require a traditional appraisal. These requirements apply to purchase transactions only and exclude all construction-to-permanent loans.

Property Type	Acceptable Appraisal Form
One-unit property, including a unit in a planned unit development (PUD) or a detached condominium unit	<i>Uniform Residential Appraisal Report</i> (Form 1004)



Condominium unit	<i>Individual Condominium Unit Appraisal Report (Form 1073)</i>
Cooperative unit	<i>Individual Cooperative Interest Appraisal Report (Fannie Mae Form 2090)</i>
Two- to four-unit property	<i>Small Residential Income Property Appraisal Report (Form 1025)</i>
Manufactured home	<i>Manufactured Home Appraisal Report (Form 1004C)</i>

To accommodate the desktop appraisal on the existing Fannie Mae forms, the [revisions to the scope of work, statements of assumptions and limited conditions, and appraiser's certification](#) must accompany the form. Additionally, as noted above, the appraiser must identify a desktop appraisal was performed by populating the *Map Reference* field on the appraisal with "desktop."

### Documentation requirements for new construction loans

If construction of the property has not yet begun or is partially complete, and the appraisal report will be completed "subject to completion per plans and specifications," the lender must provide the appraiser with, or ensure that the builder has provided the appraiser with the following:

- 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 lender must provide the appraiser with, or ensure that the builder has provided 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

The lender must obtain a signed [Builder Certification](#) attesting that the information provided is true and correct. This certification must be included in the loan file.





## Completion reports for new construction properties

For new construction properties where the 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) as a result of COVID-19 related issues, we will accept the [Completion of Construction Certification](#).

## Flexibilities for condominium project review

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Beginning Apr. 14, 2020, we offered additional guidance and temporary flexibilities for project eligibility reviews on condo projects.

### Waiver of project review

We are extending project review waiver flexibilities for loans with LTV ratios greater than 80% and up to 90%. This flexibility applies to Fannie Mae-owned, limited cash-out refinance transactions for owner-occupied condo units only. Second homes and investment transactions are excluded. When applying this flexibility, lenders must confirm the project meets the following, existing requirements:

- the litigation requirements described in *Selling Guide* [B4-2.1-03](#), Ineligible Projects, and
- all policies in *Selling Guide* [B4-2.1-02](#), Waiver of Project Review, for all loans with LTV ratios greater than 80% using the waiver of review for Fannie Mae-owned limited cash-out refinance transactions.

Lenders must provide Project Type Code V in the loan delivery data file for these transactions. The use of other Project Type Codes may result in fatal edits at loan delivery.

### Project documents used in project reviews

Lenders have reported some HOAs are experiencing a delay in ratifying their 2020 budgets. When a budget review is required on an established project, we will accept the budget from the 2019 fiscal year if the current year’s budget has not yet been ratified due to issues related to COVID-19. To utilize this flexibility, the lender must confirm the project currently meets the HOA dues delinquency requirements in *Selling Guide* [B4-2.2-02](#), Full Review Process. All other project standards requirements in *Selling Guide* B4-2, Project Standards, continue to apply.

**NOTE:** *New projects are excluded from this flexibility.*

Due to the impact of the COVID-19 pandemic on many businesses, we understand that lenders are having increased difficulties in obtaining project documents from some HOAs and property managers. Lenders may use other sources of condo project data to complete their project reviews including, but not limited to, appraisals, MLS records, plat map and site surveys, public records, state laws or local ordinances, and tax searches. Additionally, there are various vendor products available that provide project documents or information regarding project eligibility.

Some information and documents, such as the project’s current budget, may only be available from the HOA or property manager. We recognize the lender may be unable to obtain this information immediately while the operations are closed for extended periods. We are reminding our lenders that if they previously completed a project review for an established condo project, that project review may be used for additional condo unit loans in the same condo project for up to one year (measured to the note date of the subsequent loans). For new condo projects, the timeframe is 180 days prior to the note date. Additionally, some lenders have found it helpful to use Fannie Mae’s Condo Project Manager™ (CPM™) to help track and communicate project review status and review dates within their organizations.

**NOTE:** *Lenders are responsible for obtaining mortgage insurance for all loans using these flexibilities when the loan’s LTV ratio is above 80%.*

## Additional resources

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We offer a wealth of information and resources for lenders, appraisers, and servicers to help borrowers deal with the challenges associated with COVID-19:





- [Single-family Here to Help COVID-19 website](#)
- [Ask Poli Selling](#)
- [Ask Poli Servicing](#)

Lenders may also contact their Fannie Mae Account Team if they have questions about this Lender Letter. Have guide questions? Get answers to all your policy questions, straight from the source. [Ask Poli](#).