

## The Appraisal Report Webinar | Thursday, March 26, 2020 | Webinar Outline

Host: Hal Humphreys

Special Guest: Diana Jacob

### Looking for the Rainbow in the midst of a Pandemic-Appraising during a National Disaster

- I. Coronavirus or COVID-19 has created an environment of fear as we find ourselves looking over our backs for the “Invisible Man”. Just as we learn to value properties after a Natural Disaster, we must keep in mind that albeit after the event or during the event – there must be a protocol of “Safety First”. What does that mean?

- i. **Understand the Environmental Issues**

- a. The Coronavirus is not an airborne disease like measles or tuberculosis. Coronavirus attaches itself to mucus which is why it spreads through uncontained coughing and sneezing by someone infected. The most common symptoms resemble the flu and include fever, tiredness and dry cough. Some people also develop aches and pains, nasal congestion, runny nose, sore throat or diarrhea. According to the [Centers for Disease Control and Prevention](#), COVID-19 is mainly spread from person-to-person, usually via close contact (within six feet). It can also spread through physical contact like handshaking if someone's hands are contaminated with the virus, as well as through respiratory droplets produced when an infected person coughs or sneezes (again, that's why the six-foot rule is handy: those droplets can travel that far, and land on another person's mouth or nose, and can even be inhaled). Just as influenza Coronavirus spreads through coughs, sneezes, and contact with the virus.
- b. After a tornado, flood or a hurricane there will be airborne contaminants that occur and place exposed individuals in harms way. <sup>1</sup> Even after a wildfire testing is needed for the particulate residues (mainly char, ash, and soot); there is also a need to test for chemical contamination of volatile (VOC) and semi-volatile (SVOC) compounds as the air movements as well as foot traffic that can bring the fire residues back into the building creating a corrosive environment that can cause additional damage. VOCs are not primarily a surface concern, except in situations in which the less volatile organic compounds may “condense” onto surfaces or dust. Although typically low the larger concern is the VOCs penetration into porous materials in the building as it is absorbed into the fabrics during or shortly after the fire and the subsequent emission back into the indoor air.

- ii. **Prepare for the Emotional Interaction with the Occupants**

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<sup>1</sup> <https://synergist.aiha.org/201711-wildfire-residue-contamination-testing>

Currently, there is a lot of anxiety not only being experienced by the appraisers but also the homeowners. There is fear of the unknown, fear of how they will survive, put their lives back together, rebuild. Questions will stem from “will I have to move?”; “where will I/we live in the meantime?”; “will the children have to change schools?”; “will I have enough money to pay my bills?” all the way through to, “how will life ever be the same?”. After a natural disaster you will see the remains of the lives that were lived, Teddy Bears, Laptop Computers, Broken Picture Frames, Family Furniture, Dolls, miles and miles of rubble and broken pieces of the lives lived. In many cases you’ll find yourself staring into fearful eyes or eyes that have lost hope. ***A smile will go a long way to give a hug from your heart, even when social distancing.***

Find your center, if you are a believer connect to God, if you’re not then find that higher power where you can go daily, sometimes several times a day and take five minutes to reflect. Once you’ve learned “how-to plug-in focus on the areas you believe you’ll need to achieve. Sometimes it’s a good idea to find something **humorous** to think on just to relieve the pressure. ***For example, just the other day a young elementary student was asked if he understood why he couldn’t go to school right now. “Yes, they ran out of toilet paper”.***

Make a list of what needs to happen and what you’ll need for the day. If you need to conduct inspections, be prepared by informing, prior to the site visit, how you are planning on conducting the inspection.

- **Interior Inspections**

- Even in state shutdowns real estate appraisers are considered “essential workers” in many states. Banking is a financial related activity germane to Banking which has directives under the Gramm Leach Bliley Act. Appraisers provide confidential information involving private financial information and the analysis of such information is necessary to the appraisal. The appraisal is still necessary to the lenders in order to facilitate loans, i.e. an appraisal practice that is still considered essential to the mortgage lending

The big question for HAR Members is about whether real estate services would be included as an essential service and could continue to operate during this time. We are happy to say, YES, for Harris County, which includes the City of Houston. The following is the text of the relevant section from the order:

**xvi. Professional services. Professional services, such as legal or accounting services, insurances services, and "real estate services" when necessary to assist in compliance with legally mandated activities or to further Essential Businesses, Essential Government functions, or Critical Infrastructure.**

practices. Check with your state to check the status of your classification. For example, today, Houston Association of Realtors announced:

- Before you conduct the site visit ask whether or not the occupant(s) have recently traveled outside of the country, does anyone in the household have a cold or flu or cough; is anyone in the home currently sick with a fever, unexplained shortness of breath, sore throat; has anyone in the dwelling been recently exposed to any illness outside of the home or been exposed to someone who has or is suspected to have COVID-19. IF THE ANSWER IS YES TO ANY OF THESE QUESTIONS CANCEL THE INSPECTION UNTIL 14 DAYS HAVE PASSED FROM THE LAST “yes” ANSWERED

**a. Take simple steps to ensure you the appraiser are protected**

- Send by email a notice of how the inspection is going to be conducted
  - Request interior doors be opened so no touching of surfaces is necessary and all lights be turned on, cabinet doors to be open; ask for assistance with gates and exterior doors
  - Ask the occupants to stay a distance of at least 6’
  - If you are going to be wearing protective gear explain what kind; if not make sure you protect any cough or sneeze. If you’re going to wear a mask make sure you have cupped your chin and covered your nose, pinching at the bridge to ensure you’ve encased the respiratory orifices
    - Once you leave the interior place all disposable gloves and masks into a disposable plastic bag and leave at the site. DO NOT BRING BACK INTO THE CAR
  - DO NOT shake hands
  - Ask the homeowner to send by email a list of the renovations that have been made since their acquisition

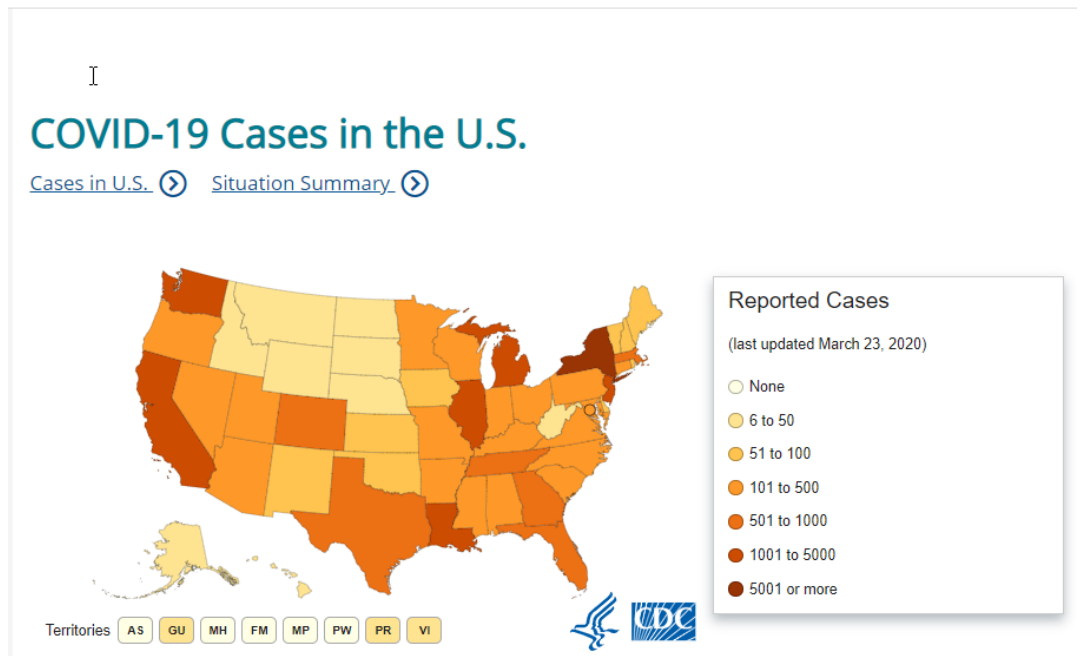
➤ ***When you return to your home, immediately remove your clothes and wash them, leave your shoes outside so that you can spray with disinfectant spray before you allow them inside; take a shower even if you washed your hair or bathed that morning.***

- Alternative ways to observe the interior – If the client approves the alternative methods of interior inspection
  - Ask the occupant to facetime and walk through each room so that you can identify rooms; when you see a picture you want taken ask them to take and send to you being sure you receive before you leave In all of the above cases, the appraisers go to the property site

to take exterior photos and measurements of the subject. This keeps the appraisers (the professionals involved)

- Exterior only (when lenders allow)
- Understand that during the Coronavirus as well as the aftermath of any disaster there is a fear factor which may put occupants in a position where they are afraid and that includes even of you the appraiser. Some will not allow you in, some will not. You cannot trespass, just inform the client the limitations you experienced. If you cannot obtain enough information to develop a credible opinion of value you must decline the assignment
  - During the aftermath of natural disasters there is often anger, depression, uncontrollable crying
  - They want to tell their story, work hard at being patient and avoid letting the emotions of the visit create a bias in your appraisal process
  - It helps to have a prepared Questionnaire that gives the occupant specific questions about information you are seeking; be sure and bring an extra pen, the homeowner may not have one readily available

Map as of March  
23, 2020

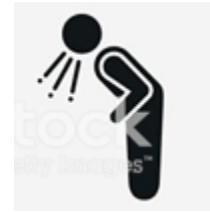


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### **Appraisal Protocol for the Duration of the Coronavirus**





#### ***First, why is this protocol critical?***

The virus attaches itself to mucus. So, it is spread through uncontained coughing and sneezing by an infected person and it is caught by inhaling the contaminated mucus or touching it and then touching an eye or the nose or the mouth. The virus can survive on an object for several days.



Since the incubation period (from contracting the virus until symptoms) can be 14 days, it can be spread unwittingly.

#### ***As an appraiser, what should I do to protect myself and the occupants from possible contact with the virus?***

1. Minimize the risk that an unsuspecting carrier transmits the virus. The homeowner or the appraiser should postpone the inspection time if anyone responds “yes” to these questions:
  - ☐ Have you recently traveled outside the country?
  - ☐ Do you have a cold? Flu? Or cough? Is anyone in your home currently sick with a fever, shortness of breath, and/or cough?
  - ☐ Has anyone in your home been exposed to someone who has, or is suspected of having, COVID-19?
  - ☐ Have you recently been exposed to any illness *outside* of your home?
2. The appraiser must wear protective gear and use protective practices.
  - ☐ Wear gloves and a mask (even though the N-95 is not available, other masks are; make sure you know how to wear the mask-  encase/cover the chin, bring up to the bridge of your nose and pinch so as to encase the areas of the nose and mouth).
  - ☐ Practice social distancing (at least six feet from each other).
  - ☐ Regardless of the presence of a mask, protect a cough or sneeze. 
  - ☐ No handshakes .
  - ☐ When the inspection is complete, place the protective gear in a new plastic bag and dispose of in the occupant’s garbage (not in your car). 
  - ☐ Once back in the car, the appraiser must wash hands with a hand sanitizer. 
3. Also, for the appraiser:
  - ☐ Ask the occupant to have all lights on and interior doors open, when practical-inform them you will appreciate assistance with gates and doors.
  - ☐ Inform the occupant ahead of time of all of this.

## II. Part of Defining the Value is to Identify the Intended Users and Intended Use

- a. Insurance Claim, FEMA Claim, Confirming the Asset, Flipping Investment, Mortgage Lending
  - i. This will affect your scope of work
  - ii. LL – 2020-04) Impact of COVID-19 Appraisals
    - 1. These are clearly stated as “Temporary Appraisal Requirement flexibilities specifically an alternative to the traditional appraisal required under Selling Guide Chapter B4-1, Appraisal Requirements – now allow either a desktop or exterior only
    - 2. Comments should be made in the Appraisal Report explaining this is not a factor in your appraisal

**Sample Comment:** *“The impact of the Coronavirus is currently being experienced nationwide. Daily there are new economic reports and strategies being developed by our government, nationally, statewide and locally. This static factor has just begun to impact our day to day behavior. As a consequence, it must be understood, this appraisal has been developed with current transactions that were prior to the last three weeks. Those transactions did not exchange during the Coronavirus environment.*

*This Appraisal Report is a conclusion of analyses that represent “before” the impact of the Coronavirus was a factor. To date, due to the constant change, COVID-19 is not a factor that can be measured. For that reason, the conclusions drawn will have a margin of error due to that uncertainty. This means on any given subsequent week this economic environment may change and have consequences to the value. Real Estate markets do not move suddenly as stock markets. Based on the current requests for a voluntary “sheltering-in” for at least 30 days, it will be a minimum 60 days from the effective date before any measurement of market reaction can be performed and/or considered in the current market value.”*

- b. Recognize the regulations of various assignments and their impact
  - i. FEMA 50% Rule
    - 1. Most important resource for a 50% FEMA Rule is FEMA’s Substantial Improvement/Substantial Damage Desk Reference<sup>2</sup>
    - 2. This is a tool that is frequently used in coastal areas, but these valuations also may be needed for properties located in flood zones and subject to floodplain management. A 50% FEMA Rule appraisal gives the property owner an understanding of how much money can be spent to improve a structure without triggering FEMA compliance. If the 50% level is reached or exceeded, the property owner faces significant additional costs related to ensuring compliance, including elevating the structure to meet FEMA standards. Communities must require that all

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<sup>2</sup> FEMA, Substantial Improvement/Substantial Damage Desk Reference (FEMA P-758, May 2010), <http://bit.ly/FEMASubstantial>

new construction and substantial improvements of residential and commercial structures within Zones A1-30, AE, and AH have the lowest floor (including basement), elevated to or above the base flood elevation. Common elevation techniques include elevation of buildings on piles, piers, or columns. All new construction and substantial improvements in Zones V1-30, VE, and also Zone V (if base flood elevation data is available), must be elevated exclusively on pilings and columns, so that the bottom of the lowest horizontal structural member of the lowest floor (excluding the pilings or columns) is elevated to or above the base flood elevation. The 50% FEMA Rule states that if the cost of improvements or repair equals or exceeds 50% of the depreciated value of the structure, the property must be brought up to current floodplain management standards.

- a. The appraiser must be skilled in understanding depreciation; an observed method without support will not generally satisfy sufficiency in the documentation of the conclusion. The Appraisal Report will need to adequately provide evidence of their calculations
- ii. Changes in local regulations (mitigation requirements that may be posed)
- iii. Yellow Book versus USPAP (in the event of a forced buyout)
- iv. The Uniform Act of 1970 (relocation assistance and Real Property Acquisition for Federal and Federally – Assisted Programs (specifically subpart B-Real Property Acquisition))

#### **1. Secondary Market Changes**

- a. Fannie Mae LL 2020-04
  - i. Lender still has the right to ask for an interior inspection; “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. (No inspection of subject or comparable sales are required for desktop appraisal)
  - ii. Exterior-only inspection now allows for purchase and refinances of Fannie Mae-owned loans
  - iii. If 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 Fannie Mae.

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

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</i> (Form 1073)
Cooperative Unit	<i>Individual Cooperative Interest Appraisal Report</i> (Fannie Mae Form 2090)
2-4 Unit Property	<i>Small Residential Income Property Appraisal Report</i> (Form 1025)
Manufactured Home	<i>Manufactured Home Appraisal Report</i> (Form 1004C)

The LL gives exhibits for both desktop and exterior-only appraisals.

- An exterior-only inspection appraisal may be obtained in lieu of an interior and exterior inspection appraisal for:
  - Purchase money loans and
  - Limited cash-out refinances where the loan being refinanced is owned by Fannie Mae

#### **LL 2020-04**

##### **Additional form instructions for appraisals**

- For a desktop appraisal or an appraisal with an exterior-only inspection that is completed on a form for an interior and exterior inspection (e.g., Form 2055) as permitted above, the appraisal report must include, in the “Map Reference” field, the corresponding text identifier that reports the type of appraisal completed: “desktop” or “exterior.”
- **Completion reports (Form 1004D)** 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, with the exception of HomeStyle® Renovation and HomeStyle Energy 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.
- **FAQ <sup>3</sup>by Fannie Mae issued 3/23/2020 (contains 6 pages)**
  - Q1. Do Fannie Mae’s existing disaster policies in the Selling Guide and the Servicing Guide apply to the COVID-19 pandemic? No, Fannie Mae’s

<sup>3</sup> <https://singlefamily.fanniemae.com/media/22326/display>



existing policies related to disasters do not apply to loans impacted by COVID-19. Instead, lenders and servicers can follow the guidance in Lender Letters LL-2020-02, Impact of COVID-19 on Servicing, LL2020-03, Impact of COVID-19 on Originations and LL-2020-04, Impact of COVID-19 on Appraisals. All guidance specific to COVID-19 will be communicated through Lender Letters and FAQ documents such as this.

- Questions 13-27 in this FAQ are specific to appraisers
  - Q.22 How should an appraiser include the revised scope of work, statements of assumptions and limiting conditions, and appraiser's certifications in the appraisal report? ***The modified scope of work, statements of assumptions and limiting conditions, and appraiser's certifications addressed in the Lender Letter must be copied and pasted, in its entirety, into a text addendum, with no edits or alterations.*** This may be done on a separate text addendum form, or as part of a general text addendum.
  - 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 (note below what the instructions are on the 4 page document that must be

### For Desktop Appraisals Using COVID-19 Temporary Flexibilities and Reported on Fannie Mae Form 1004, 1073, 1025, 1004C, or 2090

#### INSTRUCTIONS

- 1) In your appraisal report, enter the word "desktop" in the Map Reference field.
- 2) Copy the *entire text* below, including the word "DESKTOP," and paste it into your report.

copied and pasted into the Appraisal Report:

Uniform Residential Appraisal Report				File #
The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.				
Property Address		City	State	Zip Code
Borrower		Owner of Public Record		County
Legal Description				
SUBJECT	Assessor's Parcel #	Tax Year	R.E. Taxes \$	
	Neighborhood Name	Map Reference	Census Tract	
	Occupant <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant	Special Assessments \$	<input type="checkbox"/> PUD	HOA \$ <input type="checkbox"/> per year <input type="checkbox"/> per month
	Property Rights Appraised <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold <input type="checkbox"/> Other (describe)			
DETAILS	Assignment Type <input type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)			
	Lender/Client Address			
	Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Report data source(s) used, offering price(s), and date(s).				

## 2. Guidance from the ASB

### a. <sup>4</sup>March Q & A from the ASB

- i. Are appraisers required to perform interior inspections of real property during a national health emergency? (USPAP does not require an inspection unless necessary to produce credible assignment results-See SR 1-2, 2-2 and AO 2. Neither the ASB nor TAF has the authority to suspend interior inspections)
- ii. In response to COVID-19; can the appraiser modify portions of the GSE' s forms to indicate a modification to the SOW and Statement Of Assumptions and Limiting conditions?.....Response included a statement about proper disclosure; as long as the modification does not result in a misleading report and DOES NOT create a conflict that cannot be properly understood this requested modification would not in and of itself, create a misleading appraisal report. The relationship of the GSE' s policies along with the authorized use of specific replacement language, can be found on their respective websites. Regardless of any instruction by the GSEs or any other users of appraisal services, appraisers are reminded that it is UP TO THE APPRAISER to determine that adequate information is available to produce credible results. If such adequacy is not available and/or an extraordinary assumptions cannot be made in keeping with USPAP, the appraiser MAY NOT PERFORM the appraisal.

### c. Highest and Best Use – Before and After

- i. Important to understand there is no measurable unit of impact from the Coronavirus
- ii. In other types of natural disasters, where there is physical damage to the property numerous conditions can exist
  1. Keep in mind those forces that impact value (PEGS-Physical, Economic, Governmental and Social)
  2. Governmental regulations will often impact the restoration of properties and change their allowed use and/or how the improvement will be allowed to be rebuilt.
  3. Social impact will often take some time to measure and become stabilized

## III. Effective Date is an element of major consequence in the valuation of disaster impact

### a. Problem with immediate “after” the disaster

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<sup>4</sup> <file:///C:/Users/Owner/Downloads/QA%202020%20-%20%201%20-%20March%202020.pdf>

- b. Issues arise in the appraiser making the assessment of damages due to limitations of statutory and actual knowledge or skill set to determine some conditions
  - c. Problems in obtaining data about the market impact will exist (assumptions, when made need to be clear both in the sources and in the reasoning/methodology)
  - d. Bids will need to be reviewed (often the lower bid is misleading in what it fails to include that will impact the actual costs)
- IV. Recognize delays and their impact on the conclusions of the assignment
  - a. First response to the clean-up are most often those that have the financial resources and can afford to offer bonus for getting the work done in a specific time period
  - b. There will be labor and material shortages
  - c. Housing shortages
  - d. Delays in getting building permits
  - e. Market reactions will often differ depending on the event
    - i. Tornadoes versus floods, fires, earthquakes
    - ii. Pandemic or local environmental discovery (water supply or materials used in a specific development that is found to be faulty, etc.)
- V. As a profession we offer a resolve to issues unknown and are part of the rebuilding process. Recognize your role in your community going forth arming yourself with knowledge, protection, diligence, ethics Competency is no longer just about the skillset of developing the opinion, it's also about communicating the appraisal process. Credibility is connected to the development; being clear and not misleading is connected to the reporting. Competency involves both.