Conventional Lending Guide

Chapter 10 | Property and Appraisal Requirements

Cardinal will lend on mortgages secured by residential properties in urban and suburban areas, where the value, condition, and marketability of the property can be supported. The type of property must also be eligible per the product guidelines.

Cardinal Overlays to agency guidelines are highlighted in our signature *Riptide* color, and are also listed in the corresponding Retail or TPO Product Overlay Matrix available on the HUB.

Eligible Properties

Properties must be primarily residential in nature based on the property's characteristics and its market area. Eligibility includes a property that is: :

- Safe, sound, and structurally secure
- Adequately insured per Cardinal's guidelines for property and flood insurance
- The highest and best use of the property as improved (or as proposed per plans and specifications), and the use of the property must be legal or legal non-conforming use
- Readily accessible by roads that meet local standards
- Served by utilities that meet community standards
- Suitable for year-round use
- Single Family Residences
- 2-4 Unit Properties
- Condominiums
- Manufactured Housing
- Modular construction

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- Cooperatives (Retail, Consumer Direct and TPO)
- Hawaiian Properties in Lava Zone 1 through 9; zones 1 and 2 eligible with Freddie Mac products only
- Properties zoned as a Horizontal Property Regime
- Unique properties such as tiny homes, container homes, geo homes, log cabins, and barndominiums are permitted as long as acceptable and sufficient comparable homes are available for the appraiser to evaluate marketability.
  - See Unique Housing Types for eligibility.
- Group Homes
  - Group homes are residential structures utilized for occupancy by persons with disabilities (irrespective of familial relationship) and are not considered to be boarding houses
  - A property being used as a group home for individuals with disabilities is permitted and must meet all Eligible Property requirements as noted above, including:
    - The home must represent the highest and best use of the property as improved (or as proposed per plans and specifications) in accordance with Agency requirements
    - Have an eligible zoning compliance

Ineligible Property Types

The following property types are ineligible for financing:

- Properties with any activity that is exclusively non-residential with commercial-like activities such as income-producing farms
- Condotels
- Mobile homes
- Timeshares

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- Vacant land, undeveloped land, or development properties
- Agricultural properties, such as farms or ranches
- Properties in Montana with greater than 40 acres (state specific restriction)
- Properties that are not suitable for year-round occupancy regardless of location
- Bed and Breakfast
- Boarding Houses
- Properties used to cultivate marijuana
- Properties that are not residential in nature based on the characteristics of the property or the market area
- Newly constructed properties that are non-arm's length are ineligible for second homes and investment properties
- Land Contracts
- Properties located on Tribal Lands
- Properties not secured by real estate such as, houseboats, boat slips, timeshares, and other forms of property that are not real estate
- Mixed-use properties with less than 51% of entire building square footage designated for residential use
- Properties encumbered with Property Assessed Clean Energy (PACE) or Home Energy Renovation Opportunity (HERO) obligations (eligible if subordinate lien is paid off and closed)
- Community Land Trusts, Land Trust or Blind Trusts

Property Location

Properties located in Guam, Puerto Rico, and the Virgin Islands are ineligible.

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Additional Property Considerations

Tax Exemptions and Abatements

Tax exemptions or abatements are a temporary reduction in the actual amount of taxes that the owner(s) of a property must pay. The tax abatement must be from a governmental authority and not paid by the seller or by any other interested party. In order for the reduced amount to be used for qualifying purposes, the abatement, homestead, or exemption must remain in place for a minimum of five (5) years after closing (Note date). For example:

- For a municipality with a 10-year abatement, the lender may qualify the borrower with the reduced tax amount;
- For a municipality with a 10-year abatement and with annual real estate tax increases in years 1 through 10, the lender must qualify the borrower with the annual taxes that will be required at the end of the 5th year after the first mortgage payment date.

If the Underwriter has knowledge that a "Homestead" or another type of classification is considered permanent, i.e. for such reasons as due to a disability or the borrower's age, the time period does not need to be documented and the underwriting commentary on the Transmittal Form can indicate the details of the exemption. Note: the exemption must not have a predetermined expiration date within five years of the Note Date.

When the subject property is not currently owner-occupied, but it is verified that it will be when the mortgage transaction is complete, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

Exemptions for Seniors, Veterans, Disabled Veterans, or Others

Borrowers purchasing primary residences who are eligible for reduced property taxes such as senior exemptions or exemptions for veterans in a certain state or municipality may be qualified at the reduced property tax amount if the title company can reliably calculate the taxes and the borrower furnishes a copy of the application (if needed) for the program. The real estate taxes for the subject property must

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be escrowed unless prohibited by state law. The borrower must be informed that if the exemption is not approved, then the escrow account will be adjusted accordingly.

Florida Homestead Exemption

When the subject property is not currently owner-occupied, but it is verified that it will become owner-occupied when the mortgage transaction is completed in conjunction with a primary residence purchase transaction, the verified amount of homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied.

With a Florida Homestead Exemption, the first $25,000 in property value is exempt from all property taxes, including school district taxes. The following requirements apply:

- The homestead property must be your permanent residence, and you own the property on January 1 of the tax year,
- The application deadline for all exemptions is March 1,
- An additional exemption of up to $25,000 (or up to a maximum exemption of $50,000) will be applied if your property's assessed value is between at least $50,000 and $75,000. However, the exemption is not applied to school district taxes.

Texas Basic Homestead Exemption

When the subject property is not currently owner-occupied, but it is verified that it will become owner-occupied when the mortgage transaction is completed in conjunction with a primary residence purchase transaction, the verified amount of homestead property taxes may be used in qualification.

This amount can be determined by county information that provides a clear description of the property tax amount once the homestead exemption has been applied. Proof that the borrower is filing the property as their homestead is required at closing. The underwriter may use the homestead exemption property tax amount in calculating the borrower's PITIA if verification of the proposed amount is received from the title company.

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Homestead exemptions in Texas are entitled to a $3,000 exemption from county taxes and $15,000 from school taxes. The following requirements apply:

- The homestead property may not exceed the applicable acreage limit as determined by Texas law.
- All separate structures must be included in the homestead exemption.

Texas Age 65 or Older or Disabled Exemption

Texas law requires school districts to offer additional homestead exemptions to persons age 65 or older or disabled. When the subject property is not currently owned by someone 65 years of age or older or that has documented their disabled status, but it is verified that the borrower on the new mortgage transaction will meet these criteria upon the successful closing of the purchase transaction, the verified amount of the proposed Age 65 or older or disabled homestead property taxes may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the exemption has been applied. The following requirements apply:

- To qualify for the exemption for persons age 65 or older, the owner must be age 65 or older and live in the property. If the age 65 or older homeowner dies, the surviving spouse may continue to receive the local option exemption if the surviving spouse is age 55 or older at the time of death and lives in and owns the home and applies for the exemption.
- A disabled person must meet the definition of disabled for the purpose of payment of disability insurance benefits under the Federal Old-Age, Survivors and Disability Insurance Act.
- The homeowner does not have to meet the definition of disabled or age 65 or older on Jan. 1 of the tax year but may qualify as disabled or age 65 or older at any time during the tax year.
- An exemption applies to the entire tax year as if the person was disabled or age 65 on Jan. 1.
- Collect any required proration from Seller as exemption would not apply during the time Seller owned the property.

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Texas Veterans Exemptions

Texas law provides partial exemptions for any property owned by disabled veterans and surviving spouses and children of deceased, disabled veterans. It also provides a partial exemption for residence homesteads donated at no cost or not more than 50 percent of the good faith estimate of its market value to disabled veterans by charitable organizations that extend to surviving spouses who have not remarried. When the subject property is not currently owned by a disabled veteran that has verified their status, but it is verified that the borrower on the new mortgage transaction will meet these criteria upon the successful closing of the purchase transaction, the verified amount of the proposed exemption may be used in qualification. This amount can be determined by county information that provides a clear description of the property tax amount once the exemption has been applied. The following requirements apply:

- The amount of exemption is determined according to the percentage of service-connected disability.
- A surviving spouse of a member of the U.S. armed services killed in action is allowed a total property tax exemption on their residence homestead if the surviving spouse has not remarried since the death of the member of the armed services.
- A disabled veteran who receives 100 percent disability compensation due to a service-connected disability and a rating of 100 percent disabled or individual unemployability from the United States Department of Veterans Affairs is entitled to an exemption from taxation of the total appraised value of the veteran's residence homestead.
- Exemptions are applied after Jan. 1 of a tax year, and the exemption is applied for the balance of the year upon immediate qualification.
- Exemptions are removed after Jan. 1 of a tax year, and the exemption is removed for the balance of the year, and the higher tax rate must be evaluated.
- Collect any required proration from Seller as exemption would not apply during the time Seller owned the property.

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HERO Lien Payoff - Reduction in Property Taxes

HERO (Home Energy Renovation Opportunity) loan programs provide financing for energy improvements made to a property where repayments are paid through property taxes on the home. These loans are most prevalent in California. HERO loans cannot be subordinated and must be paid off on any Cardinal refinance transaction.

Since the HERO loan will no longer be in place, the payments will no longer be funneled through the property taxes and will be reduced upon the next tax assessment. If the taxing authority can provide the exact new tax amount reduction after the HERO loan pays off, this amount can be used in the housing payment calculation and resulting DTI. However, if clear documentation cannot be provided, the current property tax amount must be used in our loan calculations.

Market Value

While the credit analysis of a borrower(s) is a crucial part of the underwriting process, assessing the collateral for the subject loan is also critical. The subject property is collateral for the transaction, and as such, must be carefully reviewed to ensure it meets all Cardinal's property requirements.

Assessing the market value of the property is the underwriter's responsibility. The market value of a property is the most probable price that a property should bring in a competitive and open market, assuming all conditions of a fair sale, the buyer and seller acting prudently and reasonably, and assuming the price is not affected by undue stress.

- The buyer and seller are typically motivated.
- Both parties are well informed or well advised.
- A reasonable time frame is allowed for market exposure.
- The price reflects normal consideration without any creative financing or concessions.

An assessment of value assumes that the factors affecting a property's value and marketability are and will be stable or favorable in the future. The underwriter must assess the general economic conditions of the subject property's area and the property itself to ensure that collateral is not subject to any known

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unfavorable issues. The underwriter must also consider the general nature of the subject and its conformity to the area, e.g., unique properties may add additional risk layers to a transaction.

The market value of the subject property is determined by the appraiser via a real estate appraisal.

Property Value

In general, the value used in determining the Loan to Value (LTV) on a transaction is the lesser of the Sales Price or Purchase Price.

See the Calculating the LTV section of Chapter 4 for further guidance Chapter 4 | Eligible Transactions.

Confirmation and Documentation of Current Owner

Underwriters must confirm that the seller in a purchase money transaction or the borrower in a refinance transaction is the owner of the subject property based on publicly available information. Acceptable documents include:

- Title report
- Copy of the recorded deed, mortgage, or deed of trust
- Recent tax bill or tax assessment notice
- Title commitment or binder
- Property sale history report

This documentation is especially important for transactions involving an assignment (or sale) of a contract and back-to-back, simultaneous, double transaction closings, or double escrows to support the property acquisition, financing, and closing.

Transactions that are part of an employee relocation may have a relocation company as the assignee of the seller; this must be indicated on the sales contract and noted by the appraiser in the appraisal report.

Objective and Unbiased Appraisals

The underwriter is responsible for ensuring that the appraiser has:

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- Described the property and neighborhood in a factual, unbiased, and specific manner
- Considered all factors that have an effect on the value
- Was objective and unbiased in the development of the market value

Professional appraisers are responsible for understanding that discriminatory valuation and appraisal practices are both illegal and unethical. Unintentional discrimination can occur when an appraiser states or fails to state only factual information. The underwriter must ensure that the loan decision is not influenced by subjective, racial or stereotypical terms, phrases, or comments in the appraisal report.

While the appraisal management vendors approved by Cardinal are responsible for ensuring the quality of appraisals, including that the appraiser has complied with all applicable laws, the underwriter must also ensure that no prohibited practices such as the following are present in the appraisal.

Special Property Considerations and Requirements

Habitability

The condition of the property must be such that it presents no health or safety issues to the inhabitants, is in generally good repair, and conforms with the market area.

- All properties must be suitable for year-round occupancy with the exception of secondary residence transactions using Freddie Mac Conventional findings products.
    - A second home with seasonal limitations on year-round occupancy (e.g., lack of winter accessibility) is eligible for Freddie Mac provided the appraiser includes at least one comparable sale with similar seasonal limitations to demonstrate the marketability of the subject property.
- The condition of any property cannot present any health or safety issues.
- The property must be in generally good condition.
- The appraiser must confirm the property's condition and any needed repairs.
- The appraiser will rate the condition of the property in his overall assessment.

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- Properties rated as C6 by the appraiser require all repairs to be completed before closing.

Escrow Holdback

Repair Escrows must be submitted to the Credit Committee for approval; refer to Compliance | Loan Exception Policy.

Repairs Noted on Purchase Contracts

Refer to Chapter 2 | Documentation Standards for details surrounding the treatment of repairs noted on the purchase contract.

Heat

All properties must have a central heating source, e.g., natural gas, electric. If the property uses an alternative heating source, the appraiser must confirm that the source is:

- Able to comfortably heat the whole dwelling
- The dwelling is suitable as a year-round residence unless the transaction is for a secondary residence using Freddie Mac Conventional findings products.
- The source of heat poses no health or safety hazards
- The source of heat complies with all local codes and applicable local, state, and federal regulations
- There is market acceptance for the heat source as evidenced by comparable sales with the same or similar alternative heat sources

Community-Owned or Privately Maintained Streets

Freddie Mac

A Private Road Maintenance Agreement is not required.

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Fannie Mae

If the property is located on a community-owned or privately-owned and maintained street, an adequate, legally enforceable agreement or covenant for maintenance of the street is required. The agreement or covenant should include the following provisions and be recorded in the land records of the appropriate jurisdiction:

- Responsibility for payment of repairs, including each party's representative share;
- Default remedies in the event a party to the agreement or covenant fails to comply with their obligations; and
- The effective term of the agreement or covenant, which in most cases should be perpetual and binding on any future owners.
- The title report should identify the road maintenance agreement.
- If the property is located within a state that has statutory provisions that define the responsibilities of property owners for the maintenance and repair of a private street, no separate agreement or covenant is required. Evidence of the provision(s) must be provided.

California Properties

If there is not a private road maintenance agreement, the title company must provide assurance that there are no exceptions to title and that the road is covered by California Civil Code Section 845.

For additional information, refer to the Fannie Mae Selling Guide Site Section of the Appraisal Report.

Rural Properties

The property characteristic, zoning, and present land use should be analyzed to determine if the subject property is residential in nature. The subject property should conform to other properties in the area, e.g., if the typical property is 2.0 acres, the subject should be approximately 2.0 acres. Particular attention should be paid to the Highest and Best use to ensure that the property and neighborhood are residential in nature.

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Cardinal Financial does not lend on properties with any activity that is exclusively non-residential with commercial-like activities such as income-producing farms, undeveloped land, or land-development type properties.

Horizontal Property Regime

A horizontal property regime (HPR) is a zoning policy that allows two houses to be constructed on one piece of land that previously had one house. Each unit owner owns the land directly underneath that unit, but each unit owner has the same equal ownership interest of the rest of the "common ground" fannie mae throughout the parcel.

Each state has specific laws pertaining to property regulations. Property tax determination will also vary from state to state; some states will establish individual tax ID numbers for each unit for tax purposes, while other states will permit owners to share a single tax bill.

A Master Deed is recorded, and an HOA will typically be established along with Exhibits that identify one unit from the other.

Unit owners are responsible for the costs of administering, maintaining, and repairing the regime in amounts determined according to their percentage right to the common elements. A Homeowners Association will administer the regime and conduct the maintenance and repairs. Typically, each unit owner has a percentage of the homeowners association's shares equal to the owner's percentage rights in the common elements.

Property Classification

The property classification must be made as either a PUD or a Condominium. To determine the classification of the property, the underwriter must obtain a copy of the CC&R's or declarations for review. The determination may not be made by solely relying on the appraisal.

The subject classification will need to be consistent on all documents, i.e., the appraisal, property insurance, and legal description on the preliminary title report. All applicable PUD or Condo guidelines will apply. Refer to the Condo and PUD Project Approval Chapter for property requirements.

Note: Fannie Mae considers a development to be a condo project any time it is declared or filed as a horizontal property regime in accordance with local statutes. An exception is made if the local statute

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provides for the horizontal property regime to be created as a PUD development and the project's legal documents specifically state that the project is a PUD.

Resale Restrictions/Deed Restrictions

Properties with deed restrictions surrounding resale are subject to additional requirements. Common and acceptable deed restrictions include:

- Income limits
- Age-related requirements (complying with applicable laws)
    - Refer to the Appraisal Waivers section for differences between FNMA and Freddie Mac on age-based deed restrictions
- The requirement that the purchaser be employed by the subsidy provider
- Principal residence requirements
- First-time Home Buyer requirements as designated by the subsidy provider
- Properties that are group homes or principally used to serve disabled residents
- Resale price limits / Below market rate programs

Resale restrictions are acceptable if the restrictions automatically terminate upon:

- Foreclosure (or the expiration of the redemption period)
- Upon recordation of a deed-in-lieu of foreclosure
- Survive the foreclosure of the property

There are no restrictions on the length of time resale restrictions may remain in place. If the resale restrictions survive foreclosure, they may not impair any future foreclosure proceedings.

If the resale restrictions terminate with foreclosure or deed-in-lieu, the third-party subsidy provider may not be entitled to any proceeds from future sales or transfers of the property.

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If the resale restrictions survive foreclosure, the third-party provider is not entitled to any proceeds from the initial sale or transfer of the property after foreclosure from the foreclosing lender.

Appraisal and Loan to Value (LTV) Requirements for Resale Restricted Properties

Resale Restrictions Terminate with Foreclosure

If the resale restrictions terminate automatically upon foreclosure (or expiration of a redemption period) or upon the recording of deed-in-lieu of foreclosure, then the appraisal should reflect the market value of the property without any resale restrictions.

The borrower and appraiser must be made aware of the resale restrictions. The appraiser should include the following statement on the appraisal report:

> *"This appraisal is made on the basis of a hypothetical condition that the property rights being appraised are without resale restrictions and other restrictions that are terminated automatically upon the latter of foreclosure or the expiration of any applicable redemption period, or upon recording of deed-in-lieu of foreclosure."*

If the LTV ratio for the specific Resale Restriction or Below Market Rate Program is based solely on the appraised value, vs the lower of sales price or appraised value, the program will be ineligible for origination. Cardinal currently does not support these programs.

Resale Restrictions Survive Foreclosure

In cases where the resale restrictions survive foreclosure or deed-in-lieu of foreclosure, the appraisal must reflect the impact of the restrictions on value and use similar properties subject to the same restrictions.

The appraisal must note the existence of the resale restrictions and comment on any impact on the property's value or marketability.

The LTV ratio is based on the lower of the sales price or the appraised value, which takes into account the resale restrictions.

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Solar Panels

Solar power options have become more common as an alternate source of electricity. The ownership and debt financing structures commonly found with solar panels are vital to determining whether the panels are third-party owned, personal property of the homeowner, or a fixture to the real estate.

Common ownership or financing structures include:

- Owned Solar Panels
- Leasing agreements or Power Purchase Agreements
- Separately financed solar panels (where the panels serve as collateral for debt distinct from any existing mortgage)

Note: Properties with solar panels and other energy-efficient items financed with a PACE loan are not eligible if the PACE loan is not paid in full before or at closing.

Owned Solar Panels

If the Borrower owns the solar panels on the property, the appraiser must address the existence of the solar panels and consider the solar panels in the appraiser's opinion of the market value of the property. Additionally, the property must maintain access to alternate electrical utilities consistent with community standards.

Any contributory value for owned solar panels must comply with requirements per the Energy Efficiency Improvements section.

Solar Panels Subject to a Lease Agreement or Power Purchase Agreement (PPA)

Properties with solar panels leased or owned by a third party (Power Purchase Agreement/PPA) are eligible for financing.

Required Documents

- Solar Lease Agreement
- Power Purchase Agreement (PPA)

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Difference Between a Solar Lease and a Solar Power Purchase Agreement (PPA)

While the terms "solar lease" and "solar PPA" are very similar in practice, there is a difference between the two:

- With a solar lease, a fixed monthly "rent" or lease payment is made, which is calculated using the estimated amount of electricity the system will produce in exchange for the right to use the solar energy system.
- With a solar PPA, instead of paying to "rent" the solar panel system, the borrower agrees to purchase the power generated by the system at a set per-kWh price.

Requirements for Solar Panels Subject to a Lease Agreement or PPA
• The solar panels may not be included in the appraised value ○ Separately financed solar panels may not contribute to the value of the property *unless* the related documents indicate the panels cannot be repossessed in the event of default on the associated financing, and ○ Any contributory value for owned solar panels must comply with requirements per the Energy Efficiency Improvements section.
• The value of the solar panels must not be included in the LTV ratio calculation, even if a UCC-1 Filing is recorded because the documented lease or power purchase agreement status takes priority.
• The value of the solar panels must not be included in other debt secured by real estate in the CLTV ratio calculation because the documented lease or power purchase agreement status takes priority.
• The property must maintain access to alternate electrical utilities consistent with community standards.
• The monthly lease payments must be included in the debt-to-income ratio unless the lease is structured to: ○ Provide delivery of a specific amount of energy at a fixed payment during a given period, and ○ Have a production guarantee that compensates the borrower on a prorated basis if the solar panels fail to meet the energy output required in the lease for that period. ○ Note: Payments under power purchase agreements where the payment is calculated solely based on the energy produced may be excluded from the DTI ratio.
• The underwriter must review the lease or the PPA to ensure:

◦ Any damage that occurs as a result of installation, malfunction, a manufacturing defect, or the removal of the solar panels is the responsibility of the owner of the equipment, and the owner must be obligated to repair the damage and return the improvements to their original or prior condition (for example, sound and watertight conditions that are architecturally consistent with the home) ◦ The owner of the solar panels agrees not to be named loss payee (or named insured) on the property owner's property insurance policy covering the residential structure on which the panels are attached. As an alternative to this requirement, the lender may verify that the owner of the solar panels is not a named loss payee (or named insured) on the property owner's property insurance policy; and ◦ In the event of foreclosure, the mortgage holder has the discretion to: ▪ Terminate the lease/agreement and require the third-party owner to remove the equipment, ▪ Assume without a fee or payment the borrower's lease/agreement, or ▪ Enter into a new lease/agreement with the third party at the same or better terms
The lease or power purchase agreement must not contain: • Any restrictions that prevent the Borrower from freely transferring the Property; • The ability to be void or voidable by a third party; • The basis of contractual liability of the Borrower (including rights of first refusal, preemptive rights, or options related to a borrower's efforts to convey); • The ability to terminate or be subject to termination all or part of the interest held by the Borrower; • Any terms which indicate the lease could be: ◦ Subject to the consent of a third party; ◦ Subject to limits on the amount of sales proceeds a Borrower can retain (e.g., due to a lien, due on sale clause, etc.); ◦ Grounds for accelerating the insured Mortgage; or ◦ Grounds for increasing the interest rate of the insured Mortgage

Solar Panels Financed	
If the solar panels are:	**Then the lender must:**
Financed and collateralized against the subject property • The solar panels are collateral for the separate debt used to purchase the panels, but they are a fixture to the real estate because a UCC fixture filing has	• Obtain and review the credit report, title report, appraisal, or UCC fixture filing, related promissory note, and related security agreement that reflect the terms of the secured loan; • Include the debt obligation in the DTI ratio calculation; • **Include the solar panels in other debt secured by the real estate in the CLTV ratio calculation**

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been filed for the panels in the real estate records.	**because a UCC fixture filing is of record in the land records**; and • Provided that the panels cannot be repossessed for default on the financing terms, instruct the appraiser to consider the solar panels in the value of the property (based on standard appraisal requirements). • If a UCC fixture filing is in the land records as a priority senior to the mortgage loan, it must be subordinated or released.
If the solar panels are:	**Then the lender must:**
Financed and collateralized against non-mortgage debt (not our subject property) • The solar panels are reported to be collateral for separate (non-mortgage) debt used to purchase the panels but do not appear on the title report.	• Obtain and review documentation sufficient to confirm the terms of the secured loan (such as copies of the credit report, title report, any UCC financing statement, related promissory note, or related security agreement); • Include the debt obligation in the DTI ratio calculation; • Instruct the appraiser not to provide a contributory value of the solar panels towards the appraised value because the panels are collateral for another debt; • Not include the panels in the LTV ratio calculation; and • Not include the debt in the other debt secured by the real estate in the CLTV ratio calculation since the security agreement or any UCC financing statement treats the panels as personal property not affixed to the home • Any UCC Filing does not need to be subordinated

UCC-1 Filing

A UCC-1 Lien, also known as a Fixture Filing or Precautionary UCC filing, is one that lessors often file to put third parties on notice of their claimed ownership interest in the property described in it. When the only property described in the UCC filing as collateral is the solar equipment covered by the lease or power purchase agreement and not the home or underlying land, such a precautionary UCC filing is acceptable (and a minor impediment to title).

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On a purchase transaction, if the seller has solar panels on the home, the appraisal will indicate the existence of the panels, and the buyer and seller can agree to transfer the solar property from the seller to the buyer. Cardinal will require a copy of the transfer agreement to ensure the terms are negotiated and our borrower takes control of the solar lease.

If a UCC-1 Fixture Filing is present on the title, the UCC can either be Terminated or Subordinated:

- If subordinated, a sample Uniform Commercial Code (UCC) Financing Consent and Subordination Agreement form is available on the HUB.
    - Solar Panels collateralized against the subject property must show as a second lien and be included in the CLTV.
- If the UCC is being terminated, this is sufficient and will not require subordination.

Off-Grid Solar Panels

Unlike grid-tied solar panel systems, off-grid systems have no connection to a utility grid and must make all the electricity necessary to power your home.

FNMA

Fannie Mae will permit off-grid solar panel systems if the appraiser can demonstrate market acceptance by providing two comparable sales with a similar utility.

Freddie Mac

Off-grid solar panel systems are not eligible as the property does maintain access to alternate electrical utilities consistent with community standards.

REO Properties

Real Estate Owned (REO) properties are properties managed by or in the possession of a lender as a result of foreclosure or deed-in-lieu of foreclosure. These properties map possess an additional collateral risk because they are uninhabited. REO properties require an interior appraisal. The appraiser must address the adverse items found that could affect the livability or marketability of an REO property.

All standard appraisal and property Condition and Quality requirements apply.

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Multiple Parcels

Properties that contain more than one parcel (lot) may be acceptable for financing if the following criteria are met and the property is common for the area.

- Each parcel must be conveyed in its entirety
- The site description must accurately describe the land and any improvements included on each of the parcels
- The appraiser must consider how the existence of two or more parcels, adjoining or not, influence the value use and marketability of the property
- Parcels must be adjoined to the other, unless they comply with the following exception
    - Parcels that otherwise would be adjoined, but are divided by a road, are acceptable if the parcel without a residence is a non-buildable lot (for example, waterfront properties where the parcel without the residence provides access to the water)
    - Evidence that the lot is non-buildable must be included in the loan file
    - Evidence is provided that the parcel without the residence cannot be improved with a dwelling
- Each parcel must have the same zoning
- The entire property may contain only one dwelling unit. Limited additional non-residential improvements, such as a garage, are acceptable. An improvement that has been built across lot lines is acceptable. For example, a home built across both parcels where the lot line runs under the home is acceptable.
    - FNMA does not permit the adjoining parcel to have an additional dwelling unit
    - Freddie Mac permits an ADU on the parcel that contains the residence if the requirements of Section 5601.2 are met
- The mortgage must be a valid lien covering both parcels

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Accessory Units (ADU)

Properties with an accessory dwelling unit (ADU) may be acceptable for financing, depending on the particular loan product.

An ADU is typically an additional living area independent of the primary dwelling that may have been added to, created within, or detached from a primary dwelling.

Whether a property is defined as a 1-unit property with an accessory unit or a two- to four-unit property will be based on the characteristics of the property, which may include, but are not limited to:

- The existence of separate utility meter(s),
- A unique postal address, and
- Whether the unit can be legally rented

The appraiser must determine compliance with this definition as part of the analysis in the Highest and Best Use section of the appraisal.

Fannie Mae

The appraiser is required to provide a description of the accessory unit and analyze any effect it has on the value or marketability of the subject property. If the property contains an accessory unit, the property must meet the following requirements:

- The property is defined as a 1-unit property. ADU's are not permitted with a 2-4 unit dwelling.
- There is only one accessory unit on the property; multiple accessory units are not permitted.
- The appraisal report demonstrates that the improvements are typical for the market through an analysis of at least one comparable property with the same use.
- The borrower qualifies for the mortgage without considering any rental income from the accessory unit.
- The ADU may, but is not required to include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.

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- The ADU must:
    - Be subordinate in size to the primary dwelling,
    - Have the following separate features from the primary dwelling:
        - Means of ingress/egress,
        - Kitchen,
        - Sleeping area,
        - Bathing area, and
        - Bathroom facilities
    - The kitchen must, at a minimum, contain the following:
        - Cabinets;
        - A countertop;
        - A sink with running water; and
        - A stove or stove hookup (hotplates, microwaves, or toaster ovens are not acceptable stove substitutes)
        - An independent second kitchen by itself does not constitute an ADU
        - The removal of a stove does not change the ADU classification

Zoning

If it is determined that the property contains an accessory unit that does not comply with zoning, the property is eligible under the following additional conditions:

- The lender confirms that the existence will not jeopardize any future property insurance claim that might need to be filed for the property.
- The use conforms to the subject neighborhood and to the market.

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- The property is appraised based on its current use.
- The appraisal must report that the improvements represent a use that does not comply with zoning ('illegal use').
- The appraisal report must demonstrate that the improvements are typical for the market through an analysis of at least two to three comparable properties that have the same non-compliant zoning use. Aged settled sale(s) with the same non-compliant zoning use is acceptable if recent sales are unavailable. At a minimum, the appraisal report must include a total of three settled sales.

Manufactured Housing

If the ADU is manufactured housing, the underwriter must verify the following:

- The ADU may, but is not required to, include access to the primary dwelling. However, it is not considered an ADU if it can only be accessed through the primary dwelling or the area is open to the primary dwelling with no expectation of privacy.
- The property was built in compliance with the Federal Manufactured Home Construction and Safety Standards (established June 15, 1976, as amended and in force at the time the home was manufactured),
- It is attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance,
- The foundation system must be appropriate for the soil conditions for the site and meet local and state codes,
- It is encumbered by the mortgage with the primary dwelling, and
- It meets additional requirements in HUD regulations in 24 C.F.R. Part 3280.
- Compliance with these standards will be evidenced by photos of either the HUD Data Plate or HUD Certification Label (or both) in the appraisal. If the original or alternative documentation cannot be obtained for the Data Plate/Compliance Certificate or HUD Certification Label, the loan is not eligible for delivery to Fannie Mae.

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- A Manufactured Home may not be an accessory unit for a Mortgage secured by a Manufactured Home.

Freddie Mac

An accessory unit is an additional living area that includes at least a kitchen, a bathroom, and a separate entrance and is independent of the primary dwelling unit.

If the property contains an accessory unit, the property must meet the following requirements:

  - May be a 1-3 unit property that has one accessory unit;
  - A 4-unit property with an accessory unit is ineligible;
  - A property with two or more ADU's is ineligible

- The accessory unit must be subordinate in the living area and contribute less to the value of the property than the primary dwelling unit.
- A mortgage may be eligible when the accessory unit is legal, legal non-conforming, or illegal based on the unit's compliance with the zoning and land use requirements.
- For a property with an accessory unit, the appraiser must describe the accessory unit and appraise the property based on its current use. Any effect the accessory unit has on the market value or marketability of the subject property must be analyzed and reported.

Zoning

If the subject property accessory unit complies with the zoning and land use requirements, the appraisal report must include:

- At least one comparable sale with an accessory unit, when available, to demonstrate the property's conformity and marketability to its market area. If a recent comparable sale with an accessory unit is not available in the subject neighborhood, the appraiser can use an older sale with an accessory unit from the subject neighborhood or a sale with an accessory unit from a competing neighborhood as a comparable sale or as supporting market data.

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- If a comparable sale with an accessory unit is unavailable, the appraiser can use a comparable sale in the subject neighborhood without an accessory unit as long as the appraiser can justify and support such use in the appraisal report. Freddie Mac will purchase eligible Mortgages secured by a property with an accessory unit if the appraiser can develop an accurate opinion of market value for the property.
- The appraiser may always use more than three comparable sales, including contract sales (pending sales) and current listings, to justify and support their opinion of market value, as long as at least three are actual closed (settled) sales.

If the subject property accessory unit does not comply with the zoning and land use requirements, the Mortgage is eligible if:

- The "Site" section of the appraisal report indicates that the accessory unit does not comply with zoning and land use requirements,
- At least two comparable sales with an accessory unit must be included in the appraisal report. The accessory unit of each comparable sale must also be non-compliant with the zoning and land use requirements to demonstrate the conformity and marketability of the subject property to its market area; and
- Confirmation is provided that the existence of the accessory unit will not jeopardize future hazard insurance claims
- Note: a 2- or 3-unit property with an ADU that does not comply with zoning and land use requirements (illegal zoning) is ineligible

Manufactured Housing ADU

Freddie Mac will purchase a Mortgage on a 1, 2 or 3-unit dwelling that contains a Manufactured Home accessory unit that meets the requirements for a property with an accessory unit and the following:

- The Manufactured Home meets Freddie Mac property eligibility, titling, and lien requirements
- The Manufactured Home accessory unit must be legally classified as real property

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- A Manufactured Home accessory unit must have a minimum of 400 square feet of gross living area and meet the HUD Codes for Manufactured Homes (HUD Codes).
- A Manufactured Home may not be an accessory unit for a Mortgage secured by a Manufactured Home.
- The appraisal report for a 1, 2 or 3-unit property with a Manufactured Home accessory unit must include the following:
    - Confirmation that the HUD Data Plate/Compliance Certificate is attached to the dwelling. If not attached, the appraiser must provide the data source(s) for the HUD Data Plate/Compliance Certificate information reported
    - Confirmation that the Wind, Roof Load, and Thermal Zones meet the minimum HUD requirements for the location of the subject property. If the unit does not meet these requirements, the appraiser must address
    - Confirmation that the HUD Certification Label is attached to the exterior of each section of the dwelling. If not attached, the appraiser must provide the data source(s) for the HUD Certification Label information reported
    - Manufacturer's Serial #(s)/VIN #(s)
    - HUD Certification Label #(s)
    - Manufacturer's Name
    - Trade/Model
    - Date of Manufacture
    - Describe any additions or modifications made to the Manufactured Home (decks, rooms, remodeling, etc.)
    - A Manufactured Home may not be an ADU for a Mortgage secured by a Manufactured Home. However, this does not apply when the Mortgage is secured by a CHOICEHome

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Second Kitchens

Second kitchens are allowable if they are common to the area and do not constitute a zoning or local code violation nor present a health and safety concern.

Additions without Permits

Single-Family Properties

Properties where the additions or basements are finished without the required permits are acceptable if the appraiser comments on the quality and appearance of the work completed and its impact (if any) on the market value of the subject property. The hazard insurance must not exempt the unpermitted addition from coverage.

2-4 Unit Properties

If an additional unit was created by converting a portion of another unit (including the basement) and is allowed by zoning but is non-permitted, the property should be appraised based upon the number of permitted units/kitchens.

The appraisal report should be "as is" as long as the appraiser describes the functional obsolescence for the cost of removing the kitchen and any other requirement of returning the structure to its original state (the original number of units).

Non-permitted additions can be valued in an "as is" state when they are:

- Allowed by zoning
- The conversion was made in a skillful manner, and
- The appraiser provides three similar non-permitted conversion/units to demonstrate market acceptance.

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Properties with Outbuildings

Properties with outbuildings may be acceptable for financing if the appraisal demonstrates that the property is still residential in nature. The underwriter should carefully review the appraisal for the following:

Type of Outbuilding	Acceptability
Minimal outbuildings such as a small barn or stable where the contributory value is relatively insignificant to the overall appraised value of the property	To be acceptable, the appraisal must demonstrate that the improvements are typical of other residential properties in the subject's area. There is an active, viable market for such properties, e.g., a small hobby horse farm in an area of similar properties.
An atypical outbuilding	The property is acceptable if the appraisal gives little or no contributory value to the outbuilding.
Significant outbuildings such as silos, large barns, storage areas, or facilities for farm-type animals	The underwriter must determine if the property is residential in nature whether or not value is given to the outbuildings.

Chinese Drywall

Chinese drywall can create potential health and safety issues in the homes in which it was installed. The drywall was imported and installed between 2001 and 2007. Properties with Chinese drywall may not be eligible for financing.

If the appraiser notes that the property may have Chinese drywall and that the drywall is damaged:

- An inspection by a qualified drywall contractor is required
- If the contractor confirms that it is Chinese drywall, the property is ineligible for financing

If the appraiser notes that the property may have Chinese drywall but no damage, the property is eligible for financing.

Unique Housing Types

Properties with unique architectural styles, e.g., log cabins, dome homes, tiny homes, container homes, hexagon or octagon-shaped homes, and contemporary homes in traditional neighborhoods must be

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evaluated on a case-by-case basis to determine that there is adequate marketability for the property type.

Appraisal Requirements

Properties that are unique for their respective neighborhood must be carefully evaluated to ensure that the appraiser has adequate information to develop a reliable opinion of market value.

Whether a unique property is eligible for financing by Cardinal will depend on:

- The extent of the difference in the subject property to the neighborhood
- Whether similar properties have sold in the neighborhood
- If the appraiser can locate a minimum of two comparable sales of the same design and appeal

If similar recent sales cannot be located, the appraiser must be able to locate:

- Aged sales of similar properties
- Sales of similar properties in competing neighborhoods
- Reliable market data

If the appraiser is unable to find any evidence of market acceptance of the subject property, or the underwriter, at their discretion, does not believe there is reasonable support for the valuation, then the property is ineligible for financing by Cardinal.

Additional factors must be considered when determining the acceptability of unique property types:

- Current zoning requirements must be met
- If the subject is located in a PUD or Condominium project, the subject must comply with the bylaws of the project.
- Where applicable, as in the case of tiny or container homes, the subject must be permanently affixed to the foundation.
- The subject must meet all remaining appraisal requirements noted within this chapter.

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Accessory Dwelling Unit (ADU)

The determination of the property eligibility as an ADU is made by the appraiser; all requirements for ADU's must be followed.

Complex Transactions

When the subject property has characteristics that are not typical for their market area and the proposed loan amount is $250,000.00 or greater, Federal regulations require (Title 12, Part 34) an appraiser with a state-certified designation to complete the appraisal report. Complexity is specific to the location, conformity of the subject, and its physical characteristics, along with the market conditions.

The appraiser is responsible for notifying the AMC if the property has complex characteristics. However, it is still the underwriter's responsibility to ensure that a state-certified appraiser is utilized and the report includes similar or of a like-kind comparables.

Examples of possible complex or atypical properties include:

- Unique architectural styles, e.g., log cabin, dome, hexagon or octagon shaped homes, contemporary homes in traditional neighborhoods
- Water supplied by an unconventional means
- The size of the subject property varies widely from the subject's market area
- The lot size varies widely from others in the neighborhood
- Unusual restrictions exist, e.g., a property in an age-restricted community where such developments are not common and customary.
- Potential environmental hazards exist.

Second Appraisals

Loan amounts greater than $2M require a second appraisal. A second appraisal is also required if specifically required by a product, program, or location. An underwriter may also request a second

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appraisal as part of the valuation review or appeal process. See Second Appraisals - Appraisal Appeals for more information.

Security Bars

Security bars on bedroom windows are a potential safety issue. When a property has security bars on bedroom windows, the appraiser must include comments as to whether the security bars:

- Have safety release latches and
- Meet local building codes

Security bars that are installed per local building codes are acceptable regardless of the lack of safety release latches.

When the appraiser does not comment on the security bars or states that the security bars on the windows do not meet local building codes, the Underwriter must condition for evidence of safety release latches on the security bars or proof that they meet the current building code for their municipality.

If the security bars do not meet the requirements as defined above, the loan is ineligible for financing by Cardinal.

Infestation, Dampness or Settlement

If the appraisal indicates the evidence of wood-boring insects (Termites, Carpenter Ants, etc.), dampness, or abnormal settlement, the appraisal must comment on the effect on the value and marketability of the subject property.

A professional inspection or other evidence must be obtained to ensure that the infestation does not pose a structural threat to the property and to assess the damage. It is the underwriter's discretion to determine if the damage is extensive and should be repaired.

Properties Listed for Sale

For refinance transactions, the subject property may not be listed for sale at the time of closing. Properties that have been listed for sale in the last 12 months require the appraiser to confirm:

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- The property is not currently in the MLS listed for sale.
- The home is not FSBO or another public offering.
- The date the listing expired or was withdrawn.

When the property is listed for sale at the time the appraisal is completed, the borrower must provide proof the property has been withdrawn from the market or the listing has expired.

Special Assessment or Community Facilities Districts

Special Assessment Districts or Community Districts are created in the development of communities to fund utility and infrastructure requirements, e.g., roads, water, schools, police and fire services, and libraries. These districts have the authority to assess the homeowners for the costs of developing and maintaining these services.

The underwriter must take into account the effects of the district on market value and marketability. The district's assessments are based on the cost to develop the services over the projected number of homes. If for some reason, development stops before the completion of the project, additional assessments on the existing homeowners may increase.

The appraiser must give consideration to any effect the district has on marketability. Including the following:

- Report any special assessments that affect the property.
- Note in the appraisal if the district is in financial difficulty and that the difficulty has an effect on the value or marketability.
- The appraiser must use comparable sales of current listings, expired sales, sold properties, and properties pending sale from within the district.

If the district's financial state is severely strained, and the effect on property value and marketability cannot be determined because there is no comparable data available, then Cardinal will not lend on the property.

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Impediments to Title

Properties with an unacceptable title impediment, particularly unpaid real estate taxes and survey exceptions, are ineligible.

Minor title impediments which do not materially affect the marketability of the property are acceptable; the following conditions may be considered minor impediments:

- Exceptions for outstanding oil, gas, water, or mineral rights are acceptable if commonly granted by private institutional Mortgage investors in the area where the Mortgaged Premises is located, and:
  - the exercise of such rights will not result in damage to the Mortgaged Premises or impairment of the use or marketability of the Mortgaged Premises for residential purposes, and there is no right of surface or subsurface entry within 200 feet of the residential structure, or
  - there is a comprehensive endorsement to the title insurance policy that affirmatively insures the lender against damage or loss due to the exercise of such rights
- Customary public utility subsurface easements that were in place and completely covered when the mortgage was originated, as long as they do not extend under any buildings or other improvements;
- Above-surface public utility easements that extend along one or more of the property lines for distribution purposes or along the rear property line for drainage purposes, as long as they do not extend more than 12 feet from the property lines and do not interfere with any of the buildings or improvements or with the use of the property itself;
- Mutual easement agreements that establish joint driveways or party walls constructed on the security property and on an adjoining property, as long as all future owners have unlimited and unrestricted use of them;
- Restrictive covenants and conditions, and cost, minimum dwelling size, or set back restrictions, as long as their violation will not result in a forfeiture or reversion of title or a lien of any kind for damages, or have an adverse effect on the fair market value of the property;

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- Encroachments of one foot or less on adjoining property by eaves or other overhanging projections or by driveways, as long as there is at least a ten-foot clearance between the buildings on the security property and the property line affected by the encroachment;
- Encroachments on adjoining properties, as long as those encroachments consist only of hedges or removable fences;
- Variations between the appraisal report and the records of possession regarding the length of the property lines, as long as the variations do not interfere with the current use of the improvements and are within an acceptable range. (For front property lines, a 2% variation is acceptable; for all other property lines, 5% is acceptable.);
- Rights of lawful parties in possession, as long as such rights do not include the right of first refusal to purchase the property. (No rights of parties in possession, including the term of a tenant's lease, may have a duration of more than two years.);
- Minor discrepancies in the description of the area, as long as the lender provides a survey and affirmative title insurance against all loss or damage resulting from the discrepancies;
- Exceptions to Indian claims, as long as the lender is insured against all loss and damage from such claims.

Appraisal Requirements

Cardinal requires an appraisal for loan approval unless the product, program, or AUS findings allow for an alternative valuation method.

All real estate appraisals must be performed according to the Uniform Standards of Professional Appraisal Practice (USPAP) adopted by the Appraisal Standards Board of the Appraisal Foundation and additional requirements of the Interagency Appraisal and Evaluation Guidelines (issued by the OCC, FRB, FDIC, NCUA).

While some standards are discussed in this guide, any additional requirements may be found online at appraisalfoundation.org and the Federal Deposit Insurance Corporation www.fdic.gov/regulations/laws/rules/5000-4800.htm.

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- No appraisal-related work of any kind may be completed by an appraiser on Cardinal's Ineligible List.
- Appraisals must be obtained or ordered according to Cardinal's Appraisal Compliance Policy.
- Appraisals must be completed on the appropriate form and include proper documentation.
- Any changes or alterations must be completed by the original appraiser.

Appraiser Selection Criteria

Cardinal does not maintain or manage any list(s) of approved appraisers. All appraisal orders are placed with a third party that manages the appraiser selection and fulfillment process. The AMC's are provided with Cardinal's appraisal standards and are expected to operate in compliance with all agency requirements regarding the ordering, management, and delivery of collateral. See the Appraisal Compliance Policy for further details.

Appraiser Licensing and Certification

All appraisals must be performed by licensed or certified appraisers in the state in which the property is located.

In accordance with Appraisal Board Qualification requirements, a certified appraiser must complete work on transaction amounts greater than $1 million or properties considered to be complex. The transaction amount is defined as purchase transactions with a sales price greater than $1 million or refinance transactions with a loan amount greater than $1 million.

State Licensed Appraisers

- Meet the appraiser's education requirements, hours of experience, and other licensing requirements for their State.
- Are licensed to appraise 1-4 unit residential properties with transaction amounts less than or equal to $1 million.

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State Certified Residential Appraisers

- Meet increased appraiser's education requirements, applicable college-level requirements, required hours of experience, and other licensing requirements for their state.
- Are licensed to appraise 1-4 unit residential properties to any value and complex transactions

State Certified General Appraisers

- Meet more extensive requirements for appraiser education, college degree requirements, and increased hours of experience.
- Licensed to appraise all property types, residential and commercial, to any value

For additional information regarding complex transactions, refer to the Complex Transactions section.

Smart Document Reference: 200.000 Appraisal | License

Appraiser Trainees

Conventional Transactions

Unlicensed or uncertified appraisers or appraiser trainees may perform a significant amount of the appraisal, including the property inspection, and sign the left side of the appraiser certification as the Appraiser if: they are working under the supervision of a state-licensed or state-certified appraiser as an employee or subcontractor, the right side of the appraiser certification is signed by that supervisory appraiser, and it is acceptable under state law.

Unlicensed or uncertified appraisers and appraiser trainees are not allowed to do only the inspection, as Fannie Mae's and Freddie Mac's appraisal report forms identify the Appraiser as the individual who: personally inspects the property being appraised, inspected the exterior of the comparables, performed the analysis, and prepared and signed the appraisal report as the appraiser.

The supervisory appraiser takes full responsibility for the appraisal report when signing the right side of the appraiser certification. They are not required to also physically inspect the subject property or comparables.

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Non-Conforming

Appraisals performed by appraiser trainees are not acceptable unless the appraisal or review appraisal is signed by a State Certified Supervisory appraiser who has performed an inspection of the subject property as required by the appraisal assignment.

- Interior/Exterior appraisal, the supervisory appraiser must inspect both the interior and exterior of the subject property.
- Exterior Only appraisal the supervisory appraiser is required to inspect the exterior only.

Complex Transactions

When the subject property has characteristics that are not typical for their market area and the proposed loan amount is $250,00 or greater, Federal regulations require (Title 12, Part 34) an appraiser with a state-certified designation to complete the appraisal report. Complexity is specific to the location, conformity of the subject, and its physical characteristics, along with the market conditions.

The appraiser is responsible for notifying the AMC if the property has complex characteristics. However, it is still the underwriter's responsibility to ensure that a state-certified appraiser is utilized and the report includes similar or of a like-kind comparables.

Examples of possible complex or atypical properties include:

- Unique architectural styles

  Example: log cabin, dome, hexagon or octagon-shaped homes, contemporary homes in traditional neighborhoods

- Water supplied by an unconventional means.
- The size of the subject property varies widely from the subject's market area.
- The lot size varies widely from others in the neighborhood
- Unusual restrictions exist

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Example: a property in an age-restricted community where such developments are not common and customary

- Potential environmental hazards exist

Licensing Documentation

For all loans, before loan closing, the underwriter must confirm that all appraisers who performed any appraisal relied upon for loan decision hold a valid state-issued appraiser's certification that meets Cardinal requirements.

Acceptable methods for confirmation are:

- Screenprint obtained from a state licensing authority's website or asc.gov
- Photocopy or electronic image of the license or certification that was provided

The documentation must include all of the following:

- Appraiser's full name
- State issuing the license
- License number
- Appraiser's level of qualification, if applicable
- License expiration date

Appraisal Assignment

To avoid influencing or the appearance of attempting to influence an appraiser, when placing an appraisal assignment order, only the following should be sent to the AMC/appraisal vendor assigning the appraisal.

- Property Address
- Copy of the sales agreement for purchase transactions

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- Plans and specifications for new construction or renovation
- Pertinent information needed to schedule an appointment

In no case is it permissible to pass on an estimated value or loan amount.

Errors and Omissions Insurance

Our appraisal management processes with our AMC's and the Mercury Network ensure that the appraiser has the appropriate E&O insurance coverage, a copy of the E&O insurance is maintained in the appraiser's file, and the policy is effective at the time the appraisal is completed.

Unacceptable Appraisal Practices

The following are examples of unacceptable appraisal practices:

- Development of or reporting an opinion of market value that is not supportable by market data or is misleading;
- Development of a valuation conclusion based either partially or completely on the sex, race, color, religion, disability, national origin, familial status, or including a reference to any protected class of either the prospective owners or occupants of the subject property or the present owners or occupants of the properties in the vicinity of the subject property;
- Use of unsupported assumptions, interjections of personal opinion, or perceptions about factors in the valuation process and the use of subjective terminology, including, but not limited to:
    - "crime rate or related data"
    - "crime (and its variants)"
    - "pride of ownership," "no pride of ownership," and "lack of pride of ownership";
    - "poor neighborhood";
    - "good neighborhood";
    - "crime-ridden area";
    - "desirable neighborhood or location";
    - "gentrified,"
    - "working class,"
    - "inner city,"
    - "preferred community," "up and coming," or

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    - "undesirable neighborhood or location";
- Inclusion of references, statements or comparisons about crime rates or crime statistics, whether objective or subjective, in the appraisal analysis or report
- Development of a valuation conclusion based on factors that local, state, or federal law designate as discriminatory, and thus, prohibited;
- Misrepresentation of the physical characteristics of the subject property, improvements, or comparable sales;
- Failure to comment on negative factors with respect to the subject neighborhood, the subject property, or proximity of the subject property to adverse influences;
- Failure to adequately analyze and report any current contract of sale, option, offering, or listing of the subject property and the prior sales of the subject property and the comparable sales;
- Selection and use of inappropriate comparable sales;
- Failure to use comparable sales that are the most locationally and physically similar to the subject property;
- Creation of comparable sales by combining vacant land sales with the contract purchase price of a home that has been built or will be built on the land;
- Failure to personally inspect the exterior of the comparable property when required by the scope of work in the appraisal report;
- Use of adjustments to comparable sales that do not reflect market reaction to the differences between the subject property and the comparable sales;
- Not supporting adjustments in the sales comparison approach;
- Failure to make adjustments when they are clearly indicated;
- Use of data, particularly comparable sales data, provided by parties that have a financial interest in the sale or in the financing of the subject property without the appraiser’s verification of the information from a disinterested source;
- Development of an appraisal or reporting an appraisal in a manner or direction that favors the cause of either the client or any related party, the amount of the opinion of value, the attainment of a specific result, or the occurrence of a subsequent event in order to receive compensation or employment for performing the appraisal or in anticipation of receiving future assignments; or
- Development of or reporting an appraisal in a manner that is inconsistent with the requirements of USPAP.

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Refer to the applicable Selling Guide for additional guidance related to Unacceptable Appraisal Practices.

Prohibited Use of Subjective Language or Appraiser's Bias

Cardinal will comply with Freddie Mac's requirements contained in the Freddie Mac Single-Family Seller/Servicer Guide (Guide) Section 5603.4 and Fannie Mae's guidance of Unacceptable Appraisal Practices contained in section B4-1.1-04 in the Fannie Mae Selling Guide which outline the prohibited use of subjective language or appraiser's bias. Specifically, any appraisal reports containing identified prohibited language are required to be corrected or the loan will be ineligible for approval through Loan Collateral Advisor. Cardinal's underwriting team will use the scripts developed and supported within Compliance | Appraisal Policy to ensure that appraisal corrections are requested and resubmitted to Loan Collateral Advisor before the subject appraisal report is approved.

Cardinal's collateral underwriting process evaluates the use of words and phrases that are unacceptable and ensures that the context is appropriate. For example, if "Polish" is used to refer to someone's nation of origin or to describe the make-up of a neighborhood's population, it's unnecessary to an appraisal report and could reflect bias; however, if "Polish" is used to note that hardwood floors look new and have a nice polish, it could be relevant. Similarly, while describing the proximity of an entertainment district, grocery store, or community amenity may be relevant to an appraisal assignment, identifying it as belonging to a specific ethnic group or religion is prohibited.

Uniform Appraisal Dataset (UAD) and the Uniform Collateral Data Portal (UCDP)

The uniform appraisal dataset (UAD) standardizes appraisal data elements on a subset of fields on specific appraisal forms and includes all data elements required to complete those forms. The following appraisal reports are required to be UAD compliant for conventional mortgage loans.

- Uniform Residential Appraisal Report (Form 1004)
- Individual Condominium Unit Appraisal Report (Form 1073)
- Exterior-Only Inspection Individual Condominium Unit Appraisal Report (Form 1075)

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- Exterior-Only Inspection Residential Appraisal Report (Form 2055)

Other appraisals may be completed using the UAD standards to the extent those standards are applicable to the particular form.

Uniform Collateral Data Portal (UCDP)

All conventional mortgages that require an appraisal report must be submitted to the UCDP and must receive a “Successful” status before closing. When an appraisal is submitted to the UCDP, a variety of feedback messages may be received that are designed to assist in reviewing the accuracy of the appraiser's opinion of value and the UAD compliance of the appraisal. These messages with a “warning” severity indicator must be addressed during the underwriter’s review of the appraisal. They do not automatically render an appraisal unacceptable. The absence of messages conversely does not mean that the appraisal or the value is acceptable. A thorough review of the appraisal must always be performed.

Appraisal Age and Expiration

General

When an appraisal is obtained, the property must be appraised within the 12 months that precede the date of the note and mortgage.

When an appraisal report will be greater than four months old as of the transaction closing date (note date), the appraiser must inspect the exterior of the property and review current market data to determine whether the property has declined in value using Form 1004D the Appraisal Update or Completion Report; the appraisal update must occur within four months prior to the date of the Note.

If the appraiser indicates that the property value has declined, a new appraisal must be obtained for the property. The 1004D is to be used when the original appraisal is over four months old but no greater than 12 months old. When the age of the original appraisal report is more than 12 months old, a new appraisal is required.

The original appraiser should complete the appraisal update. If it is necessary to use a substitute appraiser, the substitute appraiser must review the original appraisal and provide an opinion as to whether the original opinion of value was reasonable on the effective date of the original report. The

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reason for utilizing a substitute appraiser must be documented in the file. The use of a substitute appraisal requires management approval.

Subsequent Appraisal Transaction Use

When an appraisal is required for a subsequent transaction secured by the Mortgaged Premises, a prior appraisal report may be re-used if an appraisal update is obtained and the following requirements are met:

- The borrowers on the new transaction must be the borrowers on the prior transaction.
  - Freddie Mac exception: In the event of a divorce or legal separation, the borrower for the new transaction must be one of the borrowers on the prior transaction. The file must document that the borrower obtained the property through a divorce or legal separation.
- The Lender/Client must be the same on the original and subsequent transactions.
- Since the effective date of the prior appraisal, the Mortgaged Premises must not have undergone any substantial rehabilitation or renovation. In the same concept, the premises must not have been impacted by a disaster to the extent that the improvement or deterioration of the property would affect marketability or market value.
- The requirements for the new transaction type differ by agency:
  - Fannie Mae requires the subsequent transaction to be a Limited Cash-Out Refinance only.
  - Freddie Mac does not permit for the subsequent transaction to be a purchase, a cash-out refinance, or a payoff of secondary financing.
- The effective date of the appraisal report from the prior transaction must not be more than 12 months before the Note Date of the subsequent transaction.
- Values in the area of the subject property must not be declining.

The subsequent use appraisal is subject to the 1004D requirements listed above for reports dated over four months and less than 12 months.

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Appraiser Signature

An electronic (or facsimile) signature in lieu of an original signature is permissible on an appraisal so long as the appraiser maintains sole control of affixing their signature to the report.

Appraisal Report Forms and Exhibits

Appraisals must be completed on the applicable form listed below. The type of appraisal required is determined by the property type. The appraiser must inspect the interior and exterior of the property.

Form	Appraisal	Purpose
1004	Uniform Residential Appraisal Report	Interior and Exterior inspection of: • Single-family residence attached/detached • PUD • 2 unit if the units are occupied by the co-borrowers or the value of the 2nd unit is insignificant to the total value ○ e.g., garage apartment, basement apartment • Site Condominium Compliance with UAD specifications required

1004 Desktop/Form 70D	Uniform Residential Appraisal Report
	No Physical Inspection
		• AUS will determine if property qualifies for use of Desktop Appraisal
		• Appraiser uses prior URAR or hybrid, MLS, public records and other data
		• Eligible for:
		    ○ Purchase transactions
		    ○ 1-unit including units in a PUD
		    ○ Primary Residence
		    ○ LTV <=90%
		    ○ AUS issued Approve/Accept recommendation
		    ○ Transaction may not be arms-length
		    ○ Property owner at time of purchase may not be the lender or a government entity

1004C	Manufactured Home Appraisal Report	• 1-unit manufactured homes • Manufactured homes in a PUD, Condo or Coop
1007	Single-Family Comparable Rent Schedule	• Required if the subject property is a 1-unit investment property and the borrower is using rental income to qualify

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1073	Individual Condominium Unit Appraisal Report	• 1-unit properties in condo projects Compliance with UAD specifications required
2090	Individual Cooperative Interest Appraisal Report	• 1-unit properties in a cooperative project
1025	Small Residential Income Property Appraisal Report	• 2-4 unit properties
1004D	Appraisal Update or Completion Report (see Section below)	• 1-4 unit properties, for an update or completion reports
Warranty of Completion of Construction	Completion Alternative Method	• For new or proposed construction, the Warranty of Completion of Construction form is permitted to confirm the property was completed and constructed in conformity with the plans and specifications, amendments, and change orders

Exhibit	Requirements
Building Sketch and Calculations	• An exterior building sketch indicating dimensions and calculations • If the floor plan is not typical or presents functional obsolescence, the sketch must include interior walls and must reflect the obsolescence • Condo or cooperatives must indicate the unit dimensions rather than the building dimensions • All footprint sketches and floor plans are computer-generated (not hand-drawn), indicate all the dimensions needed to calculate the GLA and other required areas such as garage and basement, and show the calculations to demonstrate how the estimate for gross living area was derived • Appraiser used the Square Footage-Method for Calculating: ANSI® Z765-2021 (American National Standards Institute®) Measuring Standard for measuring, calculating, and reporting gross living area (GLA) and non-GLA areas for appraisals requiring interior and exterior inspections ○ Not required for 1004 Desktop Appraisal
Floor Plan	When required, the floor plan must include the following: • Interior walls • Doorways

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	• Staircases • Exterior ingress/egress • Labels for each room, and • The dimensions of all exterior walls
Street Map	• Must show the location of the property and the comparable sales used in the report
Exterior Photographs	• Clear photographs depicting the front, back, and street scene of the property • Photographs of the front of the comparable sales • Photographs of comparable rentals used in the Small Income Residential Appraisal Report (Form 1025) are not required.
Interior Photographs	At a minimum • Kitchen • All bathrooms • Main living area, including all bedrooms and gathering rooms • The basement, including all unfinished and finished areas • Any physical depreciation • Any recent updates Interior photographs on new construction may be taken at the time the Certification of Completion is provided on 1004D
Appraisal Update or Completion Report	• At a minimum, a photograph of the front of the subject property

1004D Repair / Completion Inspection

Cardinal Financial strives to streamline our settlement process to assure timely closing and funding of our loan transaction. To achieve that, we strongly urge that any repair or completion inspection be provided to the underwriter as a PTA condition before "clear to close."

In instances where timing precludes obtaining the inspection before closing, the underwriter can move the 1004D for new construction and existing properties to PTF. The following steps should be followed to accomplish moving the document from PTA to PTF:

If a 1004D was provided PTA, but it is not a clear inspection with all work completed, the underwriter will Approve the 1004D document. Proceed to the Transaction screen > Tags and affix uw_need_appraisal_1004D_PTF, then press Force Update.

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If a 1004D is not provided PTA, the underwriter will note EXCLUDE with a reason that the document is moving to PTF and Save. This will waive the document PTA. Proceed to the Transaction screen > Tags and affix uw_need_appraisal_1004D_PTF, then press Force Update.

Since the loan will not fund without the underwriter reviewing the 1004D, there is no additional escalation or approval needed in order for the underwriter to move this document to PTF.

Smart Document Reference: 203.002 Appraisal | Completion Report

Warranty of Completion of Construction

For proposed or newly constructed properties where the appraisal report was completed "subject to completion per plans and specifications," the Warranty of Completion of Construction may be completed to confirm completion of construction.

The form may be used in lieu of the 1004D for proposed and newly constructed properties only; this Custom Form is available in Octane.

Appraiser Certifications and Limiting Conditions

Each appraisal report includes an appraiser's certification and a statement of assumptions and limiting conditions.

- The appraiser cannot make any changes or deletions to the appraiser's certifications.
- Appraisers cannot add limiting conditions.
- Appraisers are allowed to make additional certifications on a separate page or form.

Acceptable additional certifications include:

- Those required by law
- Related to the appraiser's continuing education or membership in an appraisal organization
- Related to an appraisers compliance with privacy laws and regulations in the development, reporting, and storage of an appraisal

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The underwriter is responsible for reviewing any additional certifications made to ensure that they do not conflict with any agency or investor policies.

It is acceptable for the appraiser to state the following when the appraiser believes that only Cardinal and the borrower are the intended users:

> *"The intended user of this appraisal report is Cardinal. The intended use is to evaluate the property that is the subject of this appraisal for a mortgage finance transaction, subject to the state scope of work, the purpose of the appraisal, reporting requirements of this appraisal report form, and definition of market value. No additional intended users are identified by the appraiser."*

Appraisal Report Assessment

General Overview

Cardinal's appraisal review standards are intended to be compliant with USPAP standards and consistent with and supportive of fair lending practices. Underwriters are required to analyze the appraisal for the subject transaction in conjunction with the following:

- Contract for sale for purchase money transactions
- Current offering or listing for sale
    - Purchase
    - Refinance transactions if the subject is currently listed or has been in the past 12 months)
- Comparable sales
- Current ownership of the subject property see Confirmation and Documentation of Current Owner

The underwriter must ensure that:

- The property meets Cardinal's eligibility criteria.

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- The appraiser has provided an accurate and reliable opinion of value that reflects the market value, condition, and marketability of the subject property.

Property and Sales Contract

Subject Section

The appraisal must identify the subject property by its complete property address and legal description. The address, including the unit number for a condo, must conform to the United States Postal Service address standards.

When the subject property has a lengthy legal address, an addendum may be attached. The appraiser must also address the property rights to be appraised.

The report requires the appraiser to address if the subject property is currently for sale or has been offered for sale in the last 12 months. If the subject has not been offered for sale, the data source(s) must be indicated. If the property has been listed for sale, the report must contain the following information:

- Offering price
- Date of offering
- Data source
- All occurrences or listings must be explained
- Days on Market must be reported for appraisals required to be UAD compliant currently, Forms 1004 and 1073

Contract Section

A complete copy of the executed sales contract is required to be furnished to the appraiser. The appraisal must indicate if an analysis was performed on the contract for sale. The appraiser must provide results of the analysis or, in the case where the contract for sale was not analyzed, an explanation of why the analysis was not performed.

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UAD compliance requires that the appraiser must state the type of sale for the transaction and report other relevant information, including the sale type or whether more than one sale applies.

If the transaction is a purchase, the appraiser must provide:

- Contract Price
- Contract date
- Indication if the property seller is the owner of the record

Any financial assistance paid by any party on behalf of the borrower, including closing costs or other payments from the seller or third party, must be detailed in the appraisal. These include:

- Loan charges
- Sales concessions
- Gifts
- Down payment assistance
- Below market mortgage financing
- Gifts of personal property
- Payment of property taxes
- Payment of HOA dues for a period of time

Contract Changes After Appraisal is Complete

Refer to Chapter 2 | Documentation Standards | Lending Guide for details surrounding amendments to the contract and changes after the appraisal has been completed.

Neighborhood Section

The market value of a property is influenced by its neighborhood characteristics and trends. Cardinal does not restrict lending in any neighborhood so long as the property is acceptable as security for a mortgage based on its value, marketability, and product eligibility requirements.

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The appraisal should offer an objective analysis of the subject's neighborhood and identify the neighborhood boundaries, characteristics, and factors that affect the value and marketability of properties in the neighborhood.

Boundaries

The appraisal should clearly delineate 'North', 'South', 'East', and 'West'. The boundaries may include streets, legal boundaries, waterways, or other natural boundaries that separate neighborhoods. The appraisal may not use a map or other addendum as the sole method of identifying the boundaries.

Characteristics

The appraisal should provide the types of structures (detached/attached), architectural styles (such as row, townhouse, colonial, ranch, victorian, contemporary), current land use (such as residential, commercial, industrial), typical site size (such as 10,000 square feet or 2.00 ac) and street pattern or street designs (such as one-way, cul-de-sac, or court).

Factors Affecting Value and Marketability

Marketability and value can be addressed by an explanation of the proximity of services, employment, amenities, appeal to the market, changes in land use, access to public transportation, and any adverse environmental influences.

The appraiser must consider all of the characteristics that affect the value of the subject property to arrive at an appropriate neighborhood description and value. The results of this neighborhood analysis will drive the selection of comparable sales and market data.

The existence of certain neighborhood conditions does not mean they are unacceptable. Instead, they must be viewed in context with the nature of the neighborhood in which the subject is located. For example, a property in a neighborhood with mixed uses, such as in-home businesses and commercial uses, should be viewed as a neighborhood characteristic, and comparable sales should have the same influences.

The influence of market forces in a neighborhood must be taken into account. Economic, governmental, and environmental factors should be analyzed.

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- Economic forces include; vacant or boarded-up properties, the level of essential support services.
- Governmental forces include; regulations, laws, and taxes imposed on properties.
- Environmental forces include; the existence of hazardous waste sites, proximity to airports.

Factors such as the racial or ethnic composition of the neighborhood, the age or sex of individuals who live in a certain neighborhood are not to be stated or considered in the valuation process.

The appraiser must determine, analyze and consider all the forces or factors that may influence the value of the property. The appraiser must not make any unsupported assumptions or interject personal opinions, perceptions, or other biases about the market forces or other factors that may or may not influence the value of the property.

Degree of Growth Rate

The degree of development, “built-up” rate, on the appraisal report is the percentage of land in the subject property’s neighborhood that has been developed. The degree of development may be a factor in determining if a property is residential in nature.

Trends of Neighborhood Property Values, Demand/Supply, and Marketing Time

The appraiser must report on the following market conditions for the subject property as of the effective date of the appraisal:

Trend of Property Values	Supply of Properties in the Subject Neighborhood	Marketing Time for Properties
Increasing	Shortage	Under three months
Stable	In-balance	Three to six months
Declining	Over-supply	Over six months

The underwriter must confirm that the appraisal has analyzed listings, properties under contract as well as closed sales. The comparable sales presented by the appraiser must support the value trend, supply,

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and marketing times presented by the appraiser. For example, if the appraiser states that marketing time is under three months, then comparable sales should not be seven months old.

Particular attention should be paid to sales and financing concessions in markets with declining values, an oversupply of properties, and marketing times of over six months.

Price Range and Predominant Price

The price range and predominant value of properties in the subject neighborhood must be indicated. The high and low prevailing rates for the property type being appraised and the form being used should be analyzed to ensure that the subject property generally conforms to the area.

Over-Improvements

A property that is larger or costlier than a typical home in the neighborhood is an over-improvement. Improvements to a property may also be over-improvements, i.e., a large home in a neighborhood of cottages or a built-in swimming pool where pools are not common.

While over-improvements do not automatically mean the property is ineligible for financing, the underwriter must review the appraisal and consider whether the property would be acceptable to the typical purchaser. The contributory value in the Sales Comparison Approach adjustment grid must be considered in the underwriter's final decision.

Age Range and Predominant Age

The age range and predominant age of properties in the subject neighborhood must be included. The predominant age is the one that is most commonly found in the neighborhood. When the age of the subject property is significantly different than the predominant age range. An explanation of why the property is outside the range and commentary on marketability combined with the adjustments made in the Sales Comparison Approach is required.

Present Land Use

The appraiser must separately report the percentage of 1-unit sites, 2-4 unit sites, undeveloped land, and other uses in the neighborhood. If present land use is not indicated on the report (e.g., Parks), then the appraiser must indicate the type of land. The total of the types of land use must equal 100%.

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Site Section

The subject property site should generally conform and be acceptable to the market area. Factors to consider are size, shape, and topography. It must also have market-acceptable utilities, street improvements, street access, and other amenities. The appraiser must reflect the amenities, easements, and any encroachments in the valuation process, as these may either add or detract from the subject property's market value. The appraiser must provide commentary if the site has adverse conditions or market resistance to the property because the site is not compatible with the neighborhood or the market. The appraiser must assess the effect, if any, on the value and marketability of the property.

Site Analysis

The appraisal must include the actual size of the site. It is not acceptable to appraise part of a site, e.g., the home and 5 acres of a 20-acre property.

Subject Property Zoning

The appraiser must report the subject property's zoning classification along with a general statement as to what the given zoning permits. If the appraiser notes a specific zoning such as R-1 or R-2 then the appraisal must indicate if the subject property:

- Is a legal conforming use
- Is a legal nonconforming use (grandfathered)
- Illegal under the zoning regulations
- There is no local zoning.

Cardinal only originates mortgage loans on properties where the improvements are a legal, conforming use of the land.

The only exceptions for properties with legal non-conforming uses are:

- 1-4 unit properties or a unit in a PUD, if the appraisal reflects any adverse effect that the nonconforming use has on the value and marketability of the property.

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- The property is a condo or cooperative share unit, and the improvements can be rebuilt to current density in the event of partial or full destruction.
    - A copy of the applicable zoning regulations or letter from the local zoning authority authorizing reconstruction must be in the file.

Properties that are subject to land-use regulations that prohibit the rebuilding of improvements if they are damaged or destroyed are not eligible for financing. These may be found in coastal tideland or wetland areas, among others. The intent of these land-use regulations is to remove existing land uses and stop development, including the maintenance or construction of seawalls within specific setback lines.

Highest and Best Use

Cardinal will only originate loans where the subject property is the highest and best use of the site as is currently improved.

Adjoining Properties

The appraisal must consider the present or anticipated use of any adjoining property that may adversely affect the value or marketability of the subject property.

Site Utilities

The utilities of the property must meet community standards. If public sewer and/or water facilities, those that are supplied and regulated by the local government, are not available, community or private well and septic facilities must be available and utilized by the subject property.

The owners of the subject property must have the right to access those facilities, which must be viable on an ongoing basis. Private well or septic facilities must be located on the subject site, unless the subject property has the right to access off-site private facilities and there is an adequate, legally binding agreement for access and maintenance.

Comparable sales should have utilities similar to the subject property. When differences in utilities exist between the subject property and the comparable sales, any adjustments or lack of adjustments made to the comparable sales for significant differences must be explained in the comments area or on an attached addendum. If there is market resistance to an area because of environmental hazards or any

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other conditions that affect well, septic, or public water facilities, the appraisal must address the effect of the hazards on the value and marketability of the subject property.

Note regarding Massachusetts properties: if the property has a private septic system, the subsurface sewage disposal system must meet the requirements within Title V or Title 5 of the Massachusetts Environmental Code administered by the Massachusetts Department of Environmental Protection (DEP).

Off-Site Improvements

Improvements such as streets, alleys, sidewalks, curbs, gutters, and streetlights are considered off-site improvements. The subject property should be located with frontage on a dedicated, maintained street that meets the community standards. If the property fronts to a street that is not typical for the community, the appraisal must address the effect of the location on the value and marketability of the property.

Special Flood Hazard Areas

The appraisal must indicate whether the property is located in a Special Flood Hazard area identified on the Federal Emergency Management Agency's (FEMA) Flood Insurance Rate Maps. The specific Flood zone, the map number, and the effective date must be indicated.

Improvements

The appraisal must provide a clear, detailed, and accurate description of the improvements. Comments should be provided on needed repairs, additional features, renovations, and accessory units if applicable.

Conformity of Improvements to Neighborhood

The subject property should conform to the neighborhood in terms of age, type, design, and material. If the subject property is not typical for the area, the appraiser must address if there is any market resistance to the subject property due to factors such as adequacy of plumbing, electrical services, heating, design, quality, size, condition, or any other reason.

Actual and Effective Ages

While there is no restriction on the age of the subject property, all properties must be of the quality and condition that will be acceptable to typical purchasers in the neighborhood.

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An older well maintained property will have an effective age lower than its actual age. Properties where the effective age is older than the actual age may indicate deferred maintenance or a particular physical concern. The underwriter should pay particular attention to properties where the effective age is higher than the actual age.

Remaining Economic Life

There are no specific requirements related to remaining economic life. If the appraisal does not indicate a remaining economic life, the report is acceptable. If reported, the remaining economic life does not need to be considered because any related property deficiencies will be discussed in the sections of the appraisal that address the improvements analysis and comments on the condition of the property.

Energy Efficient Improvements

The appraisal must note if the subject property has any special energy-efficient items in the improvements section of the appraisal in the additional features field. The nature of the items and their contribution to the market value will vary depending on the subject property's location. The appraiser must compare the energy-efficient features to those of similar comparables and determine if an adjustment is warranted.

Energy-efficient items include but are not limited to; energy-efficient ratings or certifications, programmable thermostats, solar systems, low-e windows, insulated ducts, and tankless water heaters.

Solar panels that are leased from or owned by a third party under a power purchase agreement or other similar arrangement are considered personal property and are not included in the appraised value of the property. See the Solar Panels section for further details.

Layout and Floor Plans

Properties with unusual layouts and floor plans may have limited market appeal. If the appraisal notes an unusual layout or floor plan, then the appraisal must either have comparables that suffer from the same obsolescence or the appraiser must make adjustments to reflect this in the overall analysis.

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Gross Living Area

The appraisal must be consistent in the comparison of the subject's gross living area to that of the comparables. The most common method is a comparison of the above-grade living space. When calculating gross living area:

- The exterior building dimensions per floor should be used to calculate the above-grade gross living area of a property.
- In condo and cooperative projects, the interior perimeter unit dimensions should be used to calculate the gross living area.
- Garages and basements, including those that are partially above-grade, must not be included in the above-grade room count.

Only finished above-grade areas may be used in calculating and reporting above-grade room count and square footage for the gross living area.

A level is below-grade if any portion is below-grade regardless of the size of the windows, level of finish, or ability to "walk out." While a finished below-grade level may add a significant contributory value to a property, it must be included in the "Basement & Finished Rooms Below-Grade" line on the "Sales Comparison Approach" adjustment grid and the appropriate adjustments to the value address there.

Gross Building Area

The gross building area is:

- The total finished area including any interior common areas, such as stairways and hallways of the improvements based on exterior measurements
- The most common comparison for 2-4 unit properties
- Must be consistently developed for the subject and all comparables
- Must include all finished above-grade and below-grade living areas, counting all interior common areas such as stairways, hallways, and storage rooms

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- Cannot count exterior common areas such as open stairways

Utilizing the above-grade comparison method for a 2-4 unit property may be acceptable provided the appraiser sufficiently explains the rationale and clearly describes the comparisons made.

Condition and Quality

The Condition and Quality ratings must be based on a holistic view of the subject property and any improvements. When considering Condition and Quality ratings, the appraiser must:

- Consider all improvements to determine an overall Condition and Quality rating. The appraiser should select the rating that best reflects the property as a whole and in its entirety.
- Describe the subject property as of the effective date of the appraisal on an absolute basis, meaning the property must be rated on its own merits.

When an appraiser selects a rating or description of the subject property for a sales transaction, the rating or description must remain the same if/when the subject property is used as a comparable sale on a future report. The same is expected of the comparable sales used. The property ratings and descriptions should not change from one appraisal to the next.

Property Condition

Cardinal's property condition requirements are as follows:

- The appraisal report must give an opinion about the condition of the subject property improvements based on factual data.
- Appraisals based on interior and exterior inspections must include a complete inspection of the accessible areas of the property.
- Appraisal reports must reflect the adverse conditions apparent during the inspection or discovered while performing research, such as: needed repairs, presence of hazardous waste, toxic substances, or adverse environmental conditions.
- Any detrimental conditions must be reported, even if they are typical for competing properties.

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- The appraiser must consider and describe the overall condition and quality of the property improvements.
- The appraiser must identify items that need immediate repair and items where maintenance may have been deferred, whether they need immediate repair or not.
- The appraisal Additional Comments section must address needed repairs and physical, functional, or external inadequacies.

Property Condition Ratings

For appraisals required to be UAD compliant, one of the following standardized ratings must be assigned to the subject property and comparable sales.

FNMA

Fannie Mae will accept appraisal reports with a Uniform Appraisal Dataset (UAD) condition rating of C1-C5. Properties with a condition rating of C6 are not eligible; any deficiencies impacting the safety, soundness, or structural integrity of the property must be repaired with a resulting minimum condition rating of C5.

FHLMC

A Mortgaged Premises with an overall condition rating of C5 or C6 is not acceptable collateral to secure a Mortgage sold to Freddie Mac unless all issues that caused the property to be rated with a C5 or C6 condition rating are cured before funding. In such cases, the appraisal must be completed "subject to," and the reported condition rating must reflect the hypothetical condition that the repairs or alterations have been completed.

Rating	Description
C1	The improvements have been very recently constructed and have not been previously occupied. The entire structure and all components are new, and the dwelling features no physical depreciation.
C2	The improvements feature no deferred maintenance, little or no physical depreciation, and escrow requires no repairs. Virtually all building components are new or have been recently repaired, refinished, or rehabilitated. All outdated components and finishes have been updated or replaced with components that meet current standards. Dwellings in this

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	category are either almost new or have been completely renovated and are in a similar condition to new construction.
C3	The improvements are well-maintained and feature limited physical depreciation due to normal wear and tear. Some components but not every major building component may be updated or recently rehabilitated. The structure has been well maintained.
C4	The improvements feature some minor deferred maintenance or physical deterioration due to normal wear and tear. The dwelling has been adequately maintained and requires only minimal repairs to building components/mechanical systems and cosmetic repairs. All major components have been adequately maintained and are functionally adequate.
C5	The improvements feature obvious deferred maintenance and are in need of significant repairs. Some building components need repairs, rehabilitation, or updating. The functional utility and overall livability are somewhat diminished due to condition, but the dwelling remains usable and functional as a residence. **Freddie Mac** If the appraisal reflects a C5 or C6 rating, the underwriter must condition for repairs to bring the property to a C1-C4 rating. • Repairs must be completed before closing. • Appraisers Certificate of Completion is required. The original condition rating does not need to be altered after the completion of the repairs. • Escrow holdbacks are not permitted.
C6	The improvements have substantial damage, deferred maintenance with deficiencies or defects severe enough to affect the safety, soundness, or structural integrity of the improvements. The improvements are in need of substantial repairs and rehabilitation, including many or most major components. **FNMA** If the appraisal reflects a C6 rating, the underwriter must condition for repairs to bring the property to a C1-C5 rating. • Repairs must be completed before closing. • Appraisers Certificate of Completion is required. The condition rating should reflect the resulting minimum condition rating of C5. • Escrow holdbacks are not permitted. **Freddie Mac** If the appraisal reflects a C5 or C6 rating, the underwriter must condition for repairs to bring the property to a C1-C4 rating. • Repairs must be completed before closing. • Appraisers Certificate of Completion is required. The original condition rating does not need to be altered after the completion of the repairs. • Escrow holdbacks are not permitted.

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Quality of Construction

For appraisals required to be completed using the UAD, the appraiser must assign one of the following standardized quality ratings in the table below when identifying the quality of construction for the subject property and comparable sales.

Appraisal reports with a Uniform Appraisal Dataset (UAD) quality rating of Q1-Q5 are acceptable. Properties with a Quality rating of Q6 are not acceptable collateral to secure a Mortgage unless all issues that caused the property to be rated with a Q6 are repaired before funding. Refer to the Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity of the Subject Property section for information related to completing appraisals on properties with safety, soundness, or structural integrity deficiencies.

If *any portion* of the improvements has a quality of construction consistent with the Q6 quality rating, the property must be identified with a Q6 quality rating. If *any portion* of the improvements is impacted by one or more deficiencies that are consistent with a C5 or C6 condition rating, the property must be identified with a C5 or C6 condition rating.

Quality Rating	Description
Q1	Dwellings with this quality rating are usually unique structures individually designed by an architect for a specified user. Typically constructed from plans and specifications and feature a high level of artistry, high-grade materials, high-quality exterior refinements and ornamentation, and exceptionally high-quality interior refinements. The artistry throughout the dwelling is of exceptionally high quality.
Q2	Dwellings with this rating are often custom-designed for an individual owner's site. High-quality tract homes featuring individual plans or highly modified or upgraded plans are also included. The design features detailed, high-quality exterior ornamentation, high-quality interior refinements, and detail. The artistry, materials, and finishes are generally high or very high quality.
Q3	Dwellings with this rating are residences of higher quality built from readily available designer plans in above-standard residential tract developments or on an individual site. The design includes significant exterior ornamentation and interiors that are well finished. The artistry exceeds acceptable standards, and many materials and finishes have been upgraded from "stock" standards.
Q4	Dwellings with this quality rating meet or exceed the requirements of applicable building codes. Standard or modified standard building plans are utilized, and the design includes an adequate floor plan and some exterior ornamentation and

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	interior refinements. Materials, artistry, finish, and equipment are of stock or builder grade and may feature some upgrades.
Q5	Dwellings with the rating feature economy of construction and basic functionality. The dwelling features a plain design using readily available or basic floor plans with minimal design ornamentation on the interior and exterior. These dwellings must meet minimum building codes and are constructed with inexpensive, stock materials with limited refinements or upgrades.
Q6	Dwellings with this rating are basic quality and lower cost. Some may not be suitable for year-round occupancy. They are built with simple plans or without plans, often utilizing the lowest quality building material. Such dwellings are often built or expanded by unskilled persons or those with only minimal construction skills. Electrical, plumbing, or mechanical systems or equipment may be minimal or nonexistent. Older dwellings may feature one or more substandard or non-conforming additions to the original structure. If the appraisal was issued with an "as is" condition with a Q6 rating, the underwriter must condition for repairs to bring the property to a Q1-Q5 rating. • Repairs must be completed before closing. • Appraisers Certificate of Completion is required. The original condition rating does not need to be altered after the completion of the repairs. • Escrow holdbacks are not permitted.

Definitions of Not Updated, Updated, and Remodeled

Appraisals required to be compliant with UAD must also identify the level of updating in the subject property, if any. Updating is a subset of Condition, and the following definitions should be utilized by the appraiser:

Level of Updating	Description
Not Updated	Little or no updating or modernization. This includes new homes, residential properties less than 15 years old in original condition, with no major components replaced or updated, or properties over 15 years of age with dated appliances, fixtures, and finishes. Not updating does not imply that the property has not been well maintained and is fully functioning, nor does it imply deferred maintenance or physical/functional depreciation.
Updated	The property has been modified to meet current market expectations. These modifications are limited in scope and cost. An updated property should have an improved look, feel, and functional utility. Changes include refurbishment or

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	replacing components to meet existing market expectations. Updates do not include significant alterations to the structure.
Remodeled	Significant finish or structural changes have been made that increase the appeal and utility from the complete replacement or expansion. These alterations reflect fundamental changes, e.g., replacement of a major components (cabinets), bathtub or bathroom tile, relocation of plumbing/gas/fixtures/appliances, significant structural alterations (relocating walls or addition of square footage. This includes a complete gutting and rebuild.

Appraisals Completed "As Is"

Cardinal will lend on properties with "As Is" appraisals if the conditions are minor and do not affect the safety, soundness, or structural integrity of the property and the appraiser's opinion of value considers the existence of these conditions. Minor conditions and deferred maintenance are typical due to normal wear and tear from the occupancy and aging of the property. Any minor conditions or deferred maintenance must be reported, including but not limited to, worn floor finishes or carpet, minor plumbing leaks, holes in window screens, or cracked window glass.

Physical Deficiencies That Affect Safety, Soundness, or Structural Integrity

The appraisal report must identify and describe any physical deficiencies that could affect the property's safety, soundness, and structural integrity. If any of these conditions are present, the appraisal must be completed "subject to" the completion of the repairs. If the appraiser is not qualified to evaluate the alterations or repairs needed, the appraisal must detail the deficiencies, and the appraisal must be subject to inspection by a qualified professional.

The appraisal may need to be revised based on the results of the professional inspection. The appraisal report must indicate the impact of the inspection results on the opinion of value and the Condition/Quality ratings. The underwriter must review the revised report to ensure that there are no physical deficiencies or conditions that would affect the safety, soundness, or structural integrity of the property. A certification of completion is required to confirm the necessary alterations or repairs have been completed.

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Carbon Monoxide and Smoke Detector Standards

Cardinal Financial will rely on the information provided in the residential appraisal report completed by a state-licensed appraiser regarding compliance with any applicable city, county, state, or other local jurisdiction laws or requirements. If a compliance issue regarding missing or nonfunctional carbon monoxide detectors or smoke detectors is indicated by the appraiser, the following requirements must be met depending on the status of the appraisal. If the Appraiser does not indicate that these items are not installed but completes the appraisal as meeting minimum property standards, we will assume that the items required to comply with state or local laws are in place.

'As-Is' Property Appraisal for Newly Constructed Properties

Newly Construction Properties with an 'As-Is' property appraisal requires **one** of the following documentation options to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from the builder verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Copy of receipt, confirming the purchase of smoke detector(s)
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser) confirming the smoke detector was successfully installed

'As-Is' Property Appraisal for Existing Properties

Existing Properties with an "As-Is' property appraisal requires **one** of the following documentation options along with an executed Certification and Indemnification Agreement to confirm that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements:

- Written statement from a licensed contractor, handyman or similar vendor confirming that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.
- Supporting photo(s) verifying that functioning detectors have been installed in compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.

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- Copy of receipt, confirming the purchase of smoke detector(s)
- Copy of receipt, confirming the payment of services for the installation of smoke detector(s)
- Appraisal Form 1004D (provided by the appraiser)confirming the smoke detector was successfully installed

AND

- An executed Certification and Indemnification Agreement

Note: The Certification and Indemnification Agreement may be signed by the borrower, real estate agent or property seller on a purchase transaction. The Certification and Indemnification Agreement must be signed by the borrower on a refinance.

'Subject-To' Property Appraisal

- A 1004D (provided by the appraiser) must be provided to verify that the functioning detector(s) have been installed to ensure compliance with any applicable city, county, state, or other local jurisdiction laws or requirements.

Water Heater Strapping Standards

Cardinal Financial will rely on the information provided in the residential appraisal report completed by a state-licensed appraiser regarding compliance with any applicable city, county, state, or other local jurisdiction laws or requirements. If the Appraiser does not indicate that there is a deficiency related to the strapping of a water heater but completes the appraisal as meeting minimum property standards, we will assume that the items required to comply with state or local laws are in place. If a compliance issue regarding the strapping of a water heater is indicated by the appraiser, the following requirements must be met depending on the status of the appraisal:

'As-Is' Property Appraisal:

- An appraisal update with the appraiser's confirmation of acceptable water strapping and required photos (*per our AMC agreement, this should be provided free of charge).

OR

- An executed Certification and Indemnification Agreement, AND

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- Supporting photos verifying that adequate securement of the water heater has been performed.

'Subject-To' Property Appraisal:

- A 1004D (provided by the appraiser) must be provided to verify that the acceptable water heating strapping has been installed.

Sales Comparison Approach

The sales comparison approach analyzes comparable sales, properties under contract, and listings of the properties that are most similar to the subject property. This analysis is sometimes referred to as "paired sales" analysis. The analysis should take into account all the factors that have an effect on value, including valuation trends (increasing or decreasing values). The appraiser must analyze the most similar properties and determine if there are any significant differences or elements that could affect the valuation of the subject property.

Data and Verification Sources of Comparable Sales

The source of data and verification sources for each comparable sale must be reported. Data sources must be reliable for the subject property's market area. It is acceptable to obtain data from an interested party in the transaction. However, the appraiser must then verify that information with a disinterested third party.

Data sources

Multiple listing services, deed records, tax records, realtors, builders, appraisers or appraiser files, or other third-party sources. The specific source, not the statement "public records," must be stated. The sources must be reliable for the subject property's market area.

Verification Sources

Buyer, seller, listing agent, selling agent, and closing documents.

Prior Sales History of the Subject Property and Comparable Sales

Any sales of the subject property within the last three years or the comparable sales within the last year must be reported on the appraisal.

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Comparable Sales

Selection of Comparable Sales

Comparable sales should have similar physical and legal characteristics when compared to the subject property. Including but not limited to:

- Site
- Room count
- Gross living area
- Style
- Condition

Each comparable sale should be competitive with a similar appeal as the subject property. The comparable sales selected should appeal to the same market participants.

When comparable sales are used that are significantly different from the subject property, they may be acceptable. However, the appraiser must describe the differences, consider how the differences affect the market value and provide an explanation justifying the use of the comparable.

Minimum Number of Comparable Sales

A minimum number of three closed comparable sales should be reported in the sales comparable approach. Additional comparable sales can be reported to support the opinion of value provided by the appraiser. Contract offerings and listing can be used as supporting dates if applicable.

The subject property may be used as a fourth comparable or supporting data if it was previously closed.

In no instance may an appraiser create comparable sales by combining vacant land sales with the contract purchase price of a home. While these transactions cannot be used to meet the required minimum of three closed comparables, they may be used as additional support with the appropriate commentary.

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Age of Comparable Sales

Comparable sales that have closed within the last 12 months should be used in the appraisal. The best and most appropriate sales may not always be the most recent. An older sale may be more appropriate when market conditions have affected the availability of recent sales or in areas with minimal sales activity. The appraiser must explain sufficiently why older sales are being used.

Shortage of Comparable Sales

If there is a shortage of comparable sales either due to the subject property's improvements or a lack of sales in the subject property's neighborhood, the appraiser should use comparables that are not truly comparable to the subject property.

The underwriter should carefully review the comparables and the appraiser's commentary on the comparable sales, the overall market, and the adjustments to the improvements to determine if the appraiser was able to sufficiently explain and justify the use of the comparable sales.

General Requirements for Comparable Sales By Property Type

Properties in established Subdivision or Condominium or PUD Project

If the subject property is located in an established subdivision, condominium, or PUD, the appraiser should use properties within the subdivision to establish the marketability and valuation of the subject property.

Property is in an established subdivision or a unit in a condo or PUD project should have:

- Comparable sales similar to and located near the subject property
- Comparable sales from the same subdivision or project as the subject property

If the appraiser is using comparable sales from outside the subjects subdivision or project, then those comparables should:

- Be from the same market area, e.g., compete for the same buyers
- Be considered a better indicator of the current market trends in the subject's neighborhood than the existing comparables available in the subject neighborhood.

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- A justification by the appraiser must be included in the narrative analysis.

Property in a New Subdivision, New or Recently Converted Condominium Project or New PUD Project

If the subject property is located in a new (or recently converted) condo, subdivision, or PUD, then it must be compared to other properties in the neighborhood as well as to properties within the subdivision or project. This comparison is intended to gauge the market acceptance of the new development and the properties within it.

When the subject property is in a new subdivision, a new or recently converted condominium project, or a new PUD project, then the appraisal should have:

- One comparable sale from within the subject property's subdivision or project
- One comparable sale from outside the subject property's subdivision or project and it must be verified through a reliable data source (not a party to the transaction)
- The third comparable sale can be from inside or outside the subject property's subdivision or project. It is a good indicator of value and verified by a reliable data source that is not a party to the transaction
- Sales or resales from the subject properties subdivision or projects are preferable provided the developer or builder of the subject property is not involved in the transaction

Fannie Mae

- In the event there are no settled comparable sales inside a new condo project, subdivision, or PUD because the subject property transaction is one of the first units to sell, the appraiser may use two pending sales in the subject project, subdivision, or PUD in lieu of one settled sale. The appraiser must also use at least three settled comparable sales from projects, subdivisions, or PUDs outside of the subject property, subdivision, or PUD
- If the subject property is part of a newly built or recently converted condo project, subdivision, or PUD that has 2-20 units and there are no settled or pending sales, the appraiser may use comparable sales from a competing project, subdivision, or PUD

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- The report must:
  - Use competing projects, subdivisions, or PUDs of a similar size and type
  - Explain why the comparable sales were chosen and demonstrate market acceptance
  - Describe how the condo project, subdivision, or PUD chosen compares to the subject property

Note: If the subject property is not the first unit under contract in the condo project, subdivision, or PUD, the appraiser must include one under contract sale from the subject's project, subdivision, or PUD as a supplemental exhibit.

Comparable Sales Greater than Six Months in Age

In general, appraisers should use comparable sales that have sold within the last 12 months. Older sales may be acceptable as supporting data if the appraiser supports and justifies their use.

- The appraiser must comment on reasons for using any comparable sales that are more than six months old.
- If the Appraiser believes it is appropriate, they can use contract offerings and current listings as supporting data.

Rural Properties

Rural properties often have large lot sizes, and rural locations can be relatively undeveloped. The market area may have a shortage of recent truly comparable sales in close proximity to the subject property. The appraiser must use their knowledge of the area and apply good judgment in selecting comparable sales, including using sales that are a considerable distance from the subject. The underwriter must carefully review the subject, comparables, and the appraiser's commentary.

- Comparable sales located a considerable distance from the subject property can be used if they represent the best indicator of value for the subject property.
- The Appraiser must use their knowledge of the area and apply good judgment in selecting comparable sales that are the best indicators of value.
- The appraisal must include an explanation of why the particular comparables were selected.

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Factory Built Housing

Factory-built housing such as modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible under the guidelines for 1-unit properties. These types of properties must:

- Be built of the same quality of materials as, and assume the characteristics of site-built housing,
- Be legally classified as real property, and
- Conform to all local building codes in the jurisdiction in which they are permanently located

The purchase, conveyance, and financing (or refinancing) must be evidenced by a valid and enforceable first-lien mortgage or deed of trust that is recorded in the land records and must represent a single real estate transaction under applicable state law. The real estate title must be perfected, and any needed title endorsements must be obtained.

All factory-built units must be permanently attached to a foundation that meets the standards for local building codes where the unit will be placed and in accordance with the recommendations prescribed by the unit's manufacturer (when applicable). If the unit had axles, wheels, tow hitch, or other hardware to facilitate ease of transportation to the site, all such hardware must be removed, and the home must be affixed to a permanent foundation before loan closing.

Appraisal Considerations

- Comparable sales should be of a similar design.
- The Appraiser should consider dated or distant sales to meet this requirement in addition to considering the use of site/stick built housing or alternative styles of factory-built housing.
- Support for any non-similar design comparables must be presented in a well-developed narrative.
- The Appraiser cannot create sales data by combining vacant land sales with the contract/purchase price of a factory-built housing unit to develop comparable sales.

Variations in Site Size

The Appraiser must explain:

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- Any adjustments made to the comparable sales for significant differences in the comments area or on an attached addendum.
- The effect these differences have on the subject property's value or marketability.

Note: The comparable sales should have similar acreage.

Comparable is a Foreclosure or Short Sale

It is acceptable to use foreclosures and short sales as comparables if the appraiser believes they are the best and most appropriate sales available.

- The appraiser must address in the appraisal report the prevalence of such sales in the subject's neighborhood and the impact, if any, of such sales.
- The appraiser must identify and consider any differences from the subject property, such as the condition of the property and whether any stigma has been associated with it.
- The appraiser cannot assume the comparable is equal to the subject property.

  Example: a foreclosure or short sale may be in worse condition when compared to the subject property, especially if the subject property is new construction or was recently renovated.

- For appraisals that are required to be UAD compliant, the appraiser must identify the sale type as REO sale or Short sale as appropriate.

Distance of Comparables

When describing the proximity of the comparable sale to the subject property, the appraiser must:

- Be specific with respect to the distance in terms of miles, and
- Include the applicable directional indicator (for example, "1.75 miles NW")

The distance between the subject property and each comparable property must be measured using a straight line between the properties.

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Adjustments to Comparable Sales

There are not have specific guidelines or limits on net or gross adjustments. Nor can the number or dollar amount of adjustments be used as the sole determinant in the acceptability of an appraisal. The appraiser's adjustments must reflect the market's reaction to differences between properties and indicate the dollar amount of the adjustment to reflect the value of the differences in the market. Comparable sales must be adjusted to the subject property. Sales and financing concessions must be adjusted to the market value at the time of sale.

If the extent of the adjustments to the comparables is significant, to the point that they indicate the property does not conform to the neighborhood, the underwriter must determine if the opinion of value is adequately supported.

Sales or Financing concessions

Comparable sales that include sales of financing concession must be adjusted to reflect any impact on the sales price of the comparables at the time of sale. These include but are not limited to:

- Closing costs and prepaids paid by the seller
- Payment of condo, cooperative, or PUD assessments or fees
- Refunds (or credits) of borrower fees
- Monthly payments
- Assignment of rent payments
- Personal property included in the sale (see below for more guidance)
- Interest rate buydowns or below market rate financing
- Loan discount points paid by the seller
- Loan origination fees paid by the seller

If information cannot be obtained about concessions in a particular market due to legal or disclosure-related problems, then the appraiser must explain why the data is not available. If the form

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does not provide sufficient space for any discussion of the market sales concessions, the appraiser should provide an addendum.

The amount of the negative dollar adjustment for each comparable with sales or financing concessions should be equal to any increase in the purchase price of the comparable that the appraiser determines to be attributable to the concessions. The need for negative adjustments to the purchase price of the comparables is not based on how typical the concessions may be for a segment of the market area. Large concessions may still exist on properties that are overvalued for the area. Adjustments to the comparables must reflect the difference between what the property sold for with the concession and what it would have sold for without the concession.

Positive adjustments for sales concessions are not acceptable. If it is typical in the subject's market for a particular fee or cost to be paid by the seller and the fee or cost is being paid for by the buyer (borrower), then the appraiser should consider comparable sales with cash or cash equivalent financing rather than apply a positive adjustment.

Personal Property

Refer to Chapter 2 | Documentation Standards for details surrounding the treatment of personal property.

Date of Sale and Time Adjustments

Market conditions are a critical element in determining an accurate value, since the appraisal is based on a specific date in time. If there have been changes in the market conditions since the comparable sales being considered sold, they must be analyzed by the appraiser and adjusted for changes from the time the comparable went under contract to the effective date of the appraisal. Adjustments may be either positive or negative. Time adjustments should be supported by other comparables (sales, properties under contract).

The appraiser must provide the date of the sales contract and settlement (closing date). The appraiser must explain the time adjustments in detail in the discussion of comparable sales.

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Appraisers Comments and Indicated Value in the Sales Comparison Approach

The appraiser must provide appropriate comments explaining the logic and reasoning for adjustments. A statement only recognizing that an adjustment has been made is insufficient. The appraiser's analysis should also include comments about a current contract, offering, or listing for the subject or comparables sales. Commentary about current ownership and recent prior sales or transfers should be included. The reconciliation must reflect the adjusted values of the comparable sales and indicate which comparables were given the most weight in arriving at the indicated value. The indicated value in the Sales Comparison Approach must be within the adjusted value price of the comparables used in the appraisal report.

Cost and Income Approach

The cost approach is not required to be developed by the appraiser unless the property is manufactured housing. The cost approach measures value by estimating the cost to construct a substitute residence. Generally, appraisals on new construction, renovations, unique properties, or properties with functional depreciation will have the cost approach in addition to the sales comparison approach.

If the appraiser has completed the cost approach, the underwriter must thoroughly review the information provided to confirm that the appraiser's analysis and comments for the cost approach to value are consistent with comments and adjustments mentioned elsewhere in the appraisal report.

Appraisals that rely solely on the cost approach are not acceptable.

Income Approach to Value

The income approach to value assumes that the market value of the property is directly related to the rent (income) that a property earns or is expected to earn.

The income approach to value is required in the valuation of two-unit to four-unit properties. It may be appropriate in neighborhoods that consist of 1-unit properties when there is a substantial rental market.

When the income approach is used, the appraisal report must include the supporting comparable rental and sales data and the calculations used to determine the gross rent multiplier. If the appraiser has completed the income approach, the underwriter must thoroughly review the information provided to

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confirm that the appraiser's analysis and comments for the income approach are consistent with comments mentioned elsewhere in the report.

Appraisals that rely solely on the income approach as an indicator of market value are not acceptable.

Reconciliation

The valuation section of the appraisal report is designed to assist the appraiser in developing and reporting a clear, concise, and supported opinion of value. The value is based on an analysis of the cost, sales comparison, and income approaches as applicable. If the appraiser believes that additional information is needed because of the uniqueness of the subject property or a specific condition, then they will provide an addendum detailing the additional information.

After considering each approach to value utilized in the report along with the reliability and applicability of those approaches, the appraiser provides the final valuation in the reconciliation section. The appraiser must:

- Reconcile the reasonableness and reliability of each applicable approach to value
- Reconcile the reasonableness and validity of the indicated values
- Reconcile the reasonableness of available data
- Select and report the approach or approaches that were given the most weight

The value must be based on the appraiser's judgment of the results developed and may never be an average technique. A weighted average may be acceptable if the proper explanation is given. The final reconciled value must be within the range of values indicated by the Approaches used in the report.

Special Considerations

Reporting of Gross Monthly Rents

FNMA

Eligible rents on the subject property (gross monthly rent) must be reported to Fannie Mae in the loan delivery data for all two-to four-unit principal residence properties and investment properties, *regardless* of whether the borrower is using rental income to qualify for the loan.

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If the borrower is not using any rental income from the subject property to qualify, gross monthly rent must be documented only for lender reporting purposes. The borrower may provide one of the following sources (listed in order of preference):

- The appraisal report for a 1-unit investment property or two- to four-unit property, or *Single-Family Comparable Rent Schedule* (Form 1007), provided neither the applicable appraisal nor Form 1007 is dated 12 months or more before the date of the note;
- If the property is not currently rented, the lender may use the opinion of market rents provided by the appraiser; or
- If an appraisal or Form 1007 is not required for the transaction, the lender may rely upon either a signed lease from the borrower or may obtain a statement from the borrower of the gross monthly rent being charged (or to be charged) for the property. The monthly rental amounts must be stated separately for each unit in a two- to four-unit property. The disclosure from the borrower must be in the form of one of the following:
    - a written statement from the borrower, or
    - an addition to the *Uniform Residential Loan Application* (Form 1003)
- Borrower's Personal Tax Returns, Schedule E if the subject property and amount of rental income is listed
- Zestimate from Zillow.com; the Zestimate must be retained in the mortgage file
- Signed Letter from seller or realtor indicating the estimated market rent

Freddie Mac

Regardless of whether rental income from the subject Investment Property is being used to qualify the Borrower, the ULDD Data Point Property Dwelling Unit Eligible Rent Amount must be delivered for:

- Subject 1-unit Investment Property
- Each non-owner occupied unit in a 2-4 unit Primary Residence

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- Each unit in a subject 2-4 unit Investment Property

For two-to four-unit properties, the gross monthly rental income for each non-owner occupied dwelling unit can be determined using one of the following:

- Signed lease agreement
- Appraisal Form 1007/1000
- Signed Letter from the seller, realtor, or borrower indicating the estimated market rent
- Borrower's Personal Tax Returns, Schedule E if the subject property and amount of rental income is listed.
- Zestimate from Zillow.com; the Zestimate must be retained in the mortgage file

If there is no active lease for a unit, or the Borrower rents the unit to a family member, the gross monthly rental income is determined per the applicable appraisal report or addenda.

Smart Document Reference: 222.090 | Certification | Fair Market Rent

Manufactured Housing

Cardinal defines a manufactured home as a dwelling built on a permanent chassis and attached to a permanent foundation system. The appraisal must demonstrate a well-developed sales comparison approach that is supported by the cost approach to value.

Refer to Chapter 4 Eligible Transactions for seasoning requirements and Loan to Value determination.

Fannie Mae Manufactured Housing Requirements

Any dwelling unit built on a permanent chassis and attached to a permanent foundation system is a manufactured home for purposes of Fannie Mae's guidelines. The manufactured home and the land on which it is situated must be titled as real property. Other factory-built housing (not built on a permanent chassis)—such as modular, prefabricated, panelized, or sectional housing—is not considered manufactured housing, and mortgage loans secured by such housing are eligible for Fannie Mae's Guidelines.

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General Eligibility Criteria

- First-lien mortgages only,
- Fully amortizing fixed-rate mortgages, or fully amortizing adjustable-rate mortgages with initial fixed-rate periods of seven years or ten years,
- Principal residences and second home dwellings,
- Single-width manufactured homes are limited to the purchase or limited cash-out of a primary residence only

Ineligible Manufactured Housing Criteria

The following are ineligible for mortgage loans secured by manufactured homes:

- Investment properties;
- Homes located on leasehold estates;
- Construction to permanent;
- A manufactured home with an Accessory Dwelling Unit (ADU) that is also a manufactured home;
- A manufactured home is not classified and titled as real property at the time of closing;
- A property containing two manufactured homes;
- Cash-out on single-width manufactured homes

Requirements

- The manufactured home must be built in compliance with:
  - the Federal Manufactured Home Construction and Safety Standards that were established June 15, 1976, as amended and in force at the time the home is manufactured; and
  - additional requirements that appear in HUD regulations at 24 C.F.R. Part 3280.

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- The HUD Data Plate is a paper document located on the interior of the subject property that contains, among other things, the manufacturer's name and trade/model number. In addition to the data required by Fannie Mae, the Data Plate includes pertinent information about the unit, including a list of factory-installed equipment. The HUD Certification Label(s), sometimes referred to as a HUD "seal" or "tag," is a metal plate located on the exterior of each section of the home. The *Manufactured Home Appraisal Report* (Form 1004C) must have photos of either the HUD Data Plate or the HUD Certification Label(s).
    - Note: Newly constructed manufactured homes require both the HUD Data Plate and HUD Certification Label information be provided in the appraisal report along with photo exhibits
- As an alternative to the original HUD Certification Label(s) or the HUD Data Plate, the lender must obtain either a label verification letter with the same information contained on the HUD Certification Label(s) or duplicate HUD Data Plate from the Institute for Building Technology and Safety (IBTS). A duplicate HUD Data Plate may also be available by contacting the In-Plant Primary Inspection Agency (IPIA) or the manufacturer. (A list of IPIA offices is posted on HUD's website.)
- The unit must not have been previously installed or occupied at any other site or location, except from the manufacturer or the dealer's lot as a new unit.
- The manufactured home must be a 1-unit dwelling unit that is legally classified as real property.
- The towing hitch, wheels, and axles must be removed. The dwelling must assume the characteristics of site-built housing.
- The borrower must own the land on which the manufactured home is situated as fee simple, unless the manufactured home is located in a cooperative or condo project.
    - For cooperatives, both the land and dwelling must be owned by the cooperative.
    - For condos, both the land and dwelling must be subject to the condo regime.
- Mortgages secured by manufactured homes located on leasehold estates are not eligible.

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- Manufactured homes may be located either on an individual lot or in a project development.
- Project approval for mortgage loans secured by multi-width manufactured homes located on individual lots in subdivisions or PUDs is generally not required. Fannie Mae may choose to require project approval. For further information about project approval requirements, see Chapter B4-2, Project Standards.
- Single-width manufactured homes must be located in a Fannie Mae-approved subdivision or PUD when the project is a new project, or when it is subject to resale restrictions, or located on leasehold estate or a community land trust. If the property is located in a condo, co-op, or PUD, the related project data points are also required.
- PERS approval is required for all condo, co-op, or PUD projects that consist of single-width manufactured homes. For further information about project review requirements, see Chapter B4-2, Project Standards
- A single-width and double-width manufactured home must be constructed after June 15, 1976
- Cooperative or condo project developments must be Fannie Mae-approved.
- The manufactured home must be at least 12 feet wide and have a minimum of 600 square feet of gross living area.
- Fannie Mae does not specify other minimum requirements for size, roof pitch, or any other specific construction details for HUD-coded manufactured homes.
- Site preparation for delivery of the manufactured home must be completed.
- The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance.
- The foundation system must be appropriate for the soil conditions for the site and meet local and state codes.
- The manufactured home must be permanently connected to a septic tank or sewage system and to other utilities in accordance with local and state requirements.

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- If the property is not situated on a publicly dedicated and maintained street, then it must be situated on a street that is community-owned and maintained, or privately owned and maintained.
- There must be adequate vehicular access, and there must be an adequate and legally enforceable agreement for vehicular access and maintenance. See B4-1.3-04, Site Section of the Appraisal Report (02/23/2016), for additional information about privately maintained streets.
- Mortgages secured by existing manufactured homes that have incomplete items, such as a partially completed addition or renovation, or defects or needed repairs that affect safety, soundness, or structural integrity, are not eligible for purchase until the necessary work is completed.
- Exceptions to the foregoing may be made only for minor items that do not affect the ability to obtain an occupancy permit — such as landscaping, a driveway, or a walkway – subject to all requirements and warranties for new or proposed construction provided in B4-1.2-03, Requirements for Postponed Improvements (03/29/2016).

Wind Load, Roof Load and Thermal Zones

Each manufactured home must be designed according to the Federal Manufactured Home Construction and Safety Standards at 24 CFR 3280, commonly called the HUD Code. The HUD Code stipulates that the home shall be designed and constructed to conform to one of three wind load, roof load and thermal zones.

The Data Plate contains maps of the United States to inform the owner of the wind load, roof load and thermal zones. The appraiser is responsible for verifying the information related to placement of the home in the appropriate zone, however, it is the responsibility of the Underwriter to confirm that the property is in the correct zone for which it was manufactured. If the home is installed in the incorrect zone, the property is not eligible for financing.

Data Plate/ HUD Compliance Certificate sample displaying the wind load, roof load and thermal zones:

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Date of Manufacture HUD label No.(s)

Manufacturer's Serial Numbers) and Model Unit Designation

Design Approval by (D.A.P.I.A.)

This manufactured home is designed to comply with the federal manufactured home construction and safety standards in force at time of manufacture.

____________(For additional information, consult owner's manual.) ____________

The factory installed equipment includes:

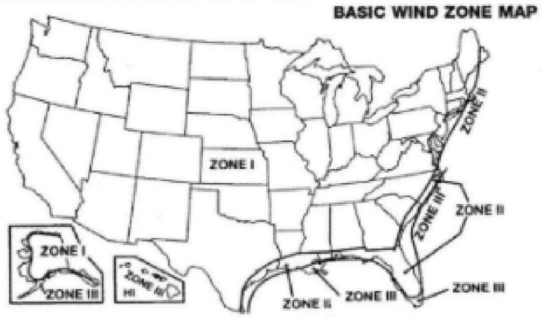
Equipment	Manufacturer	Model Designation
For Heating		
For Cooking		
Refrigerator		
Water Heater		
Washer		
Clothes Dryer		
Dishwasher		
Fireplace		
Microwave		
Air Conditioner		

HOME CONSTRUCTED FOR ___ZONE I ___ZONE II ___ZONE III ___EXP. "D"

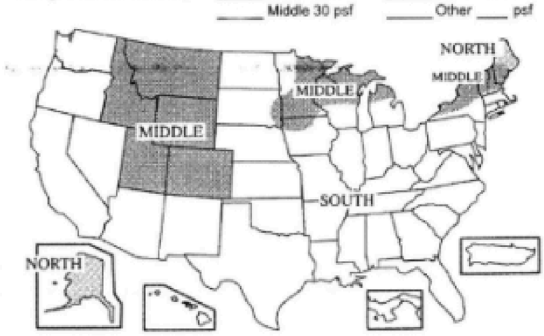
This home has not been designed for the higher wind pressure and anchoring provisions required for ocean/coastal areas and should not be located within 1500' of the coastline in Wind Zones II and III, unless the home and its anchoring and foundation system have been designed for the increased requirements specified for Exposure D in ANSI/ASCE 7 - 88.

This home has ( ) has not ( ) been equipped with storm shutters or other protective coverings for windows and exterior door openings. For homes designed to be located in Wind Zones II and III, which have not been provided with shutters or equivalent covering devices, it is strongly recommended that the home be made ready to be equipped with these devices in accordance with the method recommended in manufacturers printed instructions.

BASIC WIND ZONE MAP



Design roof load zone map: ____North 40 psf ____South 20 psf ____Middle 30 psf ____Other ___ psf



COMFORT HEATING

This manufactured home has been thermally insulated to conform with the requirements of the federal manufactured home construction and safety standards for all locations within Uo value Zone ____________. (See map at bottom)

Heating equipment manufacturer and model (See list at left).

The listed heating equipment has the capacity to maintain an average 70 degrees Fahrenheit temperature in this home at outdoor temperatures of________ degrees Fahrenheit

To maximize furnace operating economy, and to conserve energy, it is recommended that this home be installed where the outdoor winter design temperature (97 1/2%) is not higher than________ degrees Fahrenheit.

The above information has been calculated assuming a maximum wind velocity of 15 mph at standard atmospheric pressure.

COMFORT COOLING

☐ Air conditioner provided at factory (Alternate I)

Air conditioner manufacturer and model (see list at left).

Certified capacity ________ B.T.U./hour in accordance with the appropriate air conditioning and refrigeration institute standards.

The central air conditioning system provided in this home has been sized assuring an orientation of the front (hitch end) of the home facing. ________ On this basis the system is designed to Maintain an indoor temperature of 75°F when outdoor temperatures are ______°F dry bulb and __________°F wet bulb.

The temperature to which this home can be cooled will change depending upon the amount of exposure of the windows of this home to the sun's radiant heat. Therefore, the home's heat gains will vary dependent upon its orientation to the sun and any permanent shading provided. Information concerning the calculation of cooling loads at various locations, window exposures and shadings are provided in Chapter 22 of the 1989 edition of the ASHRAE Handbook of Fundamentals.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this home.

☐ Air conditioner not provided at factory (Alternate II)

The air distribution system of this home is suitable for the installation of central air conditioning. The supply air distribution system installed in this home is sized for a manufactured home central air conditioning system of up to ________ B.T.U. /hr. rated capacity which are certified in accordance with the appropriate air conditioning and refrigeration institute standards, when the air circulators of such air conditioners are rated at 0.3 inch water column static pressure or greater for the cooling air delivered to the manufactured home supply air duct system.

Information necessary to calculate cooling loads at various locations and orientations is provided in the special comfort cooling information provided with this manufactured home.

To determine the required capacity of equipment to cool a home efficiently and economically, a cooling load (heat gain) calculation is required. The cooling load is dependent on the orientation, location and the structure of the home. Central air conditioners operate most efficiently and provide the greatest comfort when their capacity closely approximates the calculated cooling load. Each home's air conditioner should be sized in accordance with Chapter 22 of the American Society of Heating, Refrigerating and Air Conditioning Engineers (ASHRAE) Handbook of Fundamentals 1989 edition, once the location and orientation are known.

INFORMATION PROVIDED BY THE MANUFACTURER NECESSARY TO CALCULATE SENSIBLE HEAT GAIN

Walls (without windows and doors)........ "U" ______
Ceiling and roofs of light color........ "U" ______
Ceilings and roofs of dark color........ "U" ______
Floors........ "U" ______
Air ducts in floor........ "U" ______
Air ducts in ceiling........ "U" ______
Air ducts installed outside the home........ "U" ______

The following are the duct areas in this home:

Air ducts in floor........ ______sq. ft.
Air ducts in ceiling........ ______sq. ft.
Air ducts outside the home........ ______sq. ft.

U/O VALUE ZONE MAP

Wind Load Zone

The appropriate wind zone used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Wind Zone can be installed in a lower Wind Zone (a Wind Zone III home can be installed in a Wind Zone I or II location). However, a Wind Zone I home cannot be installed in either a Wind Zone II or III area.

Roof Load Zone

The appropriate roof load used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Roof Load Zone can be installed in a lower Roof Load Zone (a home designed to a North Zone can be installed in a Middle or South Roof Load Zone). However, a South Roof Load Zone home cannot be installed in either a Middle or North Roof Load Zone.

Thermal Zone

The appropriate thermal zone value used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Thermal Zone can be installed in a lower Thermal Zone (a home designed to a Thermal Zone 3 can be installed in a Thermal Zone 1 or 2). However, a Thermal Zone 1 home cannot be installed in either a Thermal Zone 2 or 3 area.

Modifications to the Manufactured Home

Manufactured homes that have an addition or have had a structural modification may be eligible:

- If the state in which the property is located requires inspection by a state agency to approve modifications to the property and there is confirmation that the property has met the requirements.
- If the state does not have these requirements, the property must be inspected by a licensed professional engineer who can certify that the addition or structural changes were completed in accordance with the HUD Manufactured Home Construction Safety Standards.
- In all cases, the satisfactory inspection report must be retained in the mortgage loan file.

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Foundation Systems Requirements

- The manufactured home must be attached to a permanent foundation system in accordance with the manufacturer's requirements for anchoring, support, stability, and maintenance.
- The foundation system must be appropriate for the soil conditions for the site and meet local and state codes.

Titling a Manufactured Home as Real Property

- A mortgage, deed of trust, or security deed must be recorded in the land records and must identify the encumbered property as including both the home and the land.
- If applicable where state law permits, any certificate of title to the manufactured home must be surrendered to the appropriate state government authority. If the certificate of title cannot be surrendered, the lender must indicate its lien on the certificate.
- ALTA 7 or other state-specific equivalent Title Endorsement is required for the final title insurance policy.

Fannie Mae prefers that a loan on the manufactured home and the land on which it is situated be secured by a single lien.

However, it is recognized that some state laws do not provide for a single lien on both the manufactured home and the land. Therefore, a loan documented by a lien on the land evidenced by a mortgage, deed of trust, or security deed and by a real property lien on the manufactured home evidenced on the certificate of title or other document is acceptable.

Note: Loans in which there is a chattel lien on the home plus a real property lien on the land are unacceptable.

Value of Land

The following are Fannie Mae requirements, but currently, Manufactured home must be classified and titled as real property at the time of closing, and manufactured home must be permanently affixed to the foundation on site for more than 12 months unless:

- The borrower is the second purchaser of the property; or

- The seller is not the builder-contractor or manufactured housing dealer who installed the MH unit on site

The borrower's equity in the land is considered the borrower's own funds. Where the borrower holds title to the land on which the manufactured home will be permanently attached, the value of the land may be credited toward the borrower's minimum down payment requirement. The borrower's equity contribution will be the difference between any outstanding liens against the land and the market value of the land.

The following describes how to determine the value of the land-based on when and how the borrower acquired the land:

Date of Land Purchase	Value of the Land	Documentation Requirements
More than 12 months preceding the loan application.	The current appraised value.	None
Twelve or fewer months preceding the date of the loan application.	The lesser of the sales price or the current appraised value.	The lender must document the borrower's cash investment by obtaining: • a certified copy of the HUD-1 Settlement Statement or similar settlement statement, • a copy of the warranty deed that shows there are no outstanding liens against the property, or • a copy of the release of any prior liens(s)
The borrower acquired the land at any time as a gift, inheritance, or other non-purchase transaction.	The current appraised value.	The lender must obtain appropriate documentation to verify the acquisition and transfer of ownership of the land

- The borrower and the lender must sign an Affidavit of Affixture that acknowledges their intent for the manufactured home to be permanently part of the real property that secures the mortgage and contains any specific language that may be required by applicable law. The Affidavit must be signed by both the lender and the borrower(s), preferably recorded, and must

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be retained in the loan file. Note: Failure to include the Affidavit of Affixture in the loan file may result in the loan being ineligible for delivery to Fannie Mae.

- If state law requires a Uniform Commercial Code (UCC) filing in order to perfect a security interest in a manufactured home, the lender must make such filing in any and all appropriate locations.

Appraisal Requirements

For purchase money mortgages, the appraiser must be provided with:

- A complete copy of the executed contract for the sale of the manufactured home and land; or
- A complete copy of the executed contract for both, if the manufactured home and land are purchased separately; and
- A copy of the manufacturer's invoice if the manufactured home is new.

The appraiser must analyze the contract(s) and the manufacturer's invoice for new manufactured homes and provide a summary in the appraisal report.

The appraiser must report the results of a manufactured home appraisal on the Manufactured Home Appraisal Report (Form 1004C). The use of Form 1004C will help to ensure that the appraiser inspected, considered, and reported the appropriate information including, but not limited to, the:

- Manufacturer's name,
- Trade or model number,
- Year of manufacture,
- Serial number,
- Certification Label number(s) from either the HUD Data Plate or Certification Label(s),
- Type of foundation and utility connections,
- The detailed and supported cost approach,

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- Opinion of the market value of the site, and
- Property's conformity to the neighborhood

The appraiser must indicate a value conclusion based solely on the real property as completed consisting of the following:

- manufactured home,
- site improvements, and
- land on which the home is situated.

The value conclusion cannot include any non-realty items including, but not limited to, insurance, warranties, and furniture.

Manufactured Housing Appraisal Site Requirements

- The appraiser should select comparable sales of similar manufactured homes to address the marketability and comparability of a manufactured home, for example, multi-width homes to multi-width homes. The appraiser must use a minimum of two comparable sales of similar manufactured homes. The appraiser may use either site-built housing or a different type of factory-built housing as the third comparable sale. The appraiser must explain why site-built housing or a different type of factory-built housing is being used for the third comparable sale and make and support appropriate adjustments.
- An appraiser that is unable to locate sales of manufactured homes that are truly comparable to the subject property may decide it is appropriate to use either older sales of similar manufactured homes or sales of similar manufactured homes that are located in a competing neighborhood to establish a baseline for the sales comparison analysis and determine a sound adjustment to reflect the differences between comparable sales that are available and the subject property.
- The appraiser must not create comparable sales by combining vacant land sales with the contract purchase price of the home. This type of information may be used as additional supporting documentation.

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Manufactured Housing Appraisal Cost Approach Requirements

A detailed and supported cost approach to value is required for all manufactured homes, which must contain the information indicated on Form 1004C/70B. The sales comparison and cost approach to value is complementary for the valuation of manufactured housing and must support the final value conclusion. A property developed and detailed cost approach will provide the information necessary for an appraiser to:

- Recognize differences in manufactured home construction quality,
- Understand the difference between the comparable sales and the subject property,
- Extract from the market appropriate adjustments for the sales comparison analysis,
- Identify sales of manufactured homes that are similar enough to the subject property to use as comparable sales

Sources of Manufactured Housing Data

- Traditional appraisal data sources do not provide enough quality manufactured home data for the appraiser to develop a supportable and well-documented manufactured home appraisal. While sources such as MLS and public records are important and may contain some data, the appraiser must utilize other data sources, such as manufactured home dealers and construction companies'/builders' experience in the installation of manufactured homes.
- One important source of manufactured housing information is the NADA Manufactured Housing Appraisal Guide. That publication:
    - Lists general manufactured home depreciated replacement values based on original factory construction categories.
    - Offers a step-by-step process for arriving at the average retail book value for a manufactured home and can be used to develop a cost approach.
- Another source of information is Marshall & Swift's Residential Cost Handbook. Marshall & Swift provides:

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  - Information that enables the user to arrive at an estimate of the cost of the manufactured home when new and the replacement cost based on, among other things, the construction quality.
  - An explanation of the items that enables the appraiser to support their conclusion of the overall construction quality of the manufactured home.
- The appraiser must support their opinion about both the quality and the condition of the manufactured home.

Trade Equity in Manufactured Homes

- Trade equity from the borrower's existing manufactured home may be used as part of the borrower's minimum down payment requirement.
- The maximum equity contribution from the traded manufactured home is 90% of the retail value for the traded manufactured home based on the NADA Manufactured Housing Appraisal Guide except:
  - If the borrower has owned the traded manufactured home for less than 12 months preceding the date of the loan application, the maximum equity contribution is the lesser of 90% of the retail value or the lowest price at which the home was sold during that 12-month period, or
  - Any costs associated with the removal of the traded home or any outstanding indebtedness secured by liens on the home must be deducted from the maximum equity contribution.
- For traded manufactured homes, Fannie Mae requires that the trade equity be documented by a lien search in the appropriate real property or personal property records to verify ownership and existence of liens on the manufactured home and land. The seller of the manufactured home must provide proof of title transfer and satisfaction of any existing liens on the traded manufactured home.

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Property with an Accessory Dwelling Unit (ADU)

The manufactured home must be a one-unit dwelling that is legally classified as real property and cannot include an accessory dwelling unit.

Freddie Mac Manufactured Housing Requirements

Property Eligibility

- Must be classified and titled as real property by the time the loan closes
- Built on or after June 15, 1976
- At least 12-ft wide, with a minimum of 600 sq ft gross living area
- Built on a permanent chassis in compliance with HUD regulations
- Affixed to a permanent foundation in a way that makes MH a permanent part of the real property. The wheels, axel, and towing hitches must be removed
- Anchoring system in compliance with HUD Codes. If installed before October 20, 2008, the foundation must be designed for the site conditions, home design features, and the loads the home was designed to withstand in accordance with the manufacturer’s instructions or a design by a licensed (registered) professional engineer.
- Foundation must comply with all local, state, and federal codes, as applicable
- For a Mortgage on a new Manufactured Home, the Mortgage file must contain a copy of the manufacturer's invoice and Manufactured Home Purchase Agreement
- To evidence the Manufactured Home was built in compliance with the Federal Manufactured Home Construction and Safety Standards, either the HUD Certification Label(s) *or* HUD Data Plate must be present and legible. The HUD Data Plate section of the Manufactured Home Appraisal Report (Form 70B, Manufactured Home Appraisal Report) must be completed with the available information.

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- For a New Manufactured Home, both the HUD Data Plate *and* HUD Certification Label(s) are required. Freddie Mac will accept as alternative documentation:
  - A "HUD Label Verification Letter," with the same information contained on the HUD Certification Label(s), from the Institute for Building Technology and Safety (IBTS), or
  - A Performance Verification Certificate (PVC) from the IBTS, or
  - A copy of the HUD Data Plate from the In-Plant Primary Inspection Agency (IPIA) or manufacturer. (A list of IPIA offices is posted on HUD's website)

- Permanently connected to utilities
- Property location must be zoned for residential use
- May not be located on a leasehold estate
- Multi-wide manufactured homes must be located in PUD, condominium, individual lot, or subdivision
- The land on which the manufactured home is situated must be owned by the borrower in fee simple, except as stated below
  - A Mortgage secured by a Manufactured Home is eligible for sale to Freddie Mac if the Manufactured Home is located in a Planned Unit Development or if located in a Condominium Project, and project eligibility is determined through a reciprocal review
- A Mortgage secured by a single-wide Manufactured Home is eligible for sale to Freddie Mac if the single-wide Manufactured Home is located in a Planned Unit Development or if located in a Condominium Project, and project eligibility is determined through a reciprocal review (PERS).
- A Mortgage secured by a single-wide Manufactured Home must meet the following requirements:
  - The Manufactured Home must be a Primary Residence
  - The transaction must be a purchase or "no cash-out" refinance
- A property containing two manufactured homes is ineligible for financing

Note: Any structural modifications to an existing manufactured home must be approved by a licensed professional engineer or the local, state, or federal authority. In addition, if any structural modifications or

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add-ons have been made to a 1-unit dwelling and any portion of the dwelling is a manufactured home, the Mortgage securing such property must be delivered as a manufactured home in compliance with Freddie Mac guidelines.

Wind Load, Roof Load and Thermal Zones

Each manufactured home must be designed according to the federal Manufactured Home Construction and Safety Standards at 24 CFR 3280, commonly called the HUD Code. The HUD Code stipulates that the home shall be designed and constructed to conform to one of three wind load, roof load and thermal zones.

The Data Plate contains maps of the United States to inform the owner of the wind load, roof load and thermal zones. The appraiser is responsible for verifying the information related to placement of the home in the appropriate zone, however, it is the responsibility of the Underwriter to confirm that the property is in the correct zone for which it was manufactured. If the home is installed in the incorrect zone, the property is not eligible for financing.

Wind Load Zone

The appropriate wind zone used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Wind Zone can be installed in a lower Wind Zone (a Wind Zone III home can be installed in a Wind Zone I or II location). However, a Wind Zone I home cannot be installed in either a Wind Zone II or III area.

Roof Load Zone

The appropriate roof load used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Roof Load Zone can be installed in a lower Roof Load Zone (a home designed to a North Zone can be installed in a Middle or South Roof Load Zone). However, a South Roof Load Zone home cannot be installed in either a Middle or North Roof Load Zone.

Thermal Zone

The appropriate thermal zone value used in design is dependent on where the home will be initially installed. Homes designed and constructed to a higher Thermal Zone can be installed in a lower

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Thermal Zone (a home designed to a Thermal Zone 3 can be installed in a Thermal Zone 1 or 2). However, a Thermal Zone 1 home cannot be installed in either a Thermal Zone 2 or 3 area.

Ineligible Mortgages

A Mortgage secured by a Manufactured Home must not be:

- An Adjustable Rate Mortgage (ARM)
- A Non-Loan Product Advisor Mortgage that has never been submitted to Loan Product Advisor
- A Mortgage subject to a temporary subsidy buydown
- A Renovation Mortgage
- A Seller-Owned Converted Mortgage
- A Seller-Owned Modified Mortgage
- An Investment Property Mortgage
- A Seasoned Mortgage
- A leasehold Mortgage
- A Mortgage securing a Manufactured Home that was moved from its original site and was previously occupied or installed on a permanent foundation
- A Freddie Mac HomeOne℠ Mortgage
- A Community Land Trust Mortgage
- A Mortgage secured by property subject to income-based resale restrictions
- Secured by a unit in a Cooperative Project
- Cash-out on single-width manufactured homes

Purchase Transactions

Mortgage proceeds may be used for:

- Manufactured Home and land

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- Documented costs for delivery and setup, site development, installation, and utility connection

Exception: If Construction Conversion, Mortgage proceeds may be used to acquire the MH and pay construction costs, including costs to install and anchor the MH on a permanent foundation system. Refer to Guide Section 4602.5.

Note: Credits for wheels/axles, retailer rebates, and sales concessions must be deducted from the purchase price.

Manufactured Housing Appraisal Requirements

The appraisal must meet the requirements of Guide Section 5703.6, including:

- Appraisal Report on Form 70B, Manufactured Home Appraisal Report
- To evidence the Manufactured Home is built in compliance with the Federal Manufactured Home Construction and Safety Standards, except for a new Manufactured Home, either the HUD Certification Label(s) or HUD Data Plate must be present and legible. The HUD Data Plate section of Form 70B must be completed with the available information.

If the Manufactured Home is located in a condominium project, the appraiser must also report the project information on Form 465, Individual Condominium Unit Appraisal Report, and attach the form as an addendum to Form 70B.

Equity Contributions

If Contribution Is:	To Determine the Maximum Equity Contribution, Use:	And Document the File With:
Land Equity	1. If the land has been owned by the borrower(s) > 12 months before the application date, use the current appraised value 2. If the land has been owned by the borrower(s) < 12 months before the application date, use the lower of: • Current appraised value, or • Purchase price	1. Appraisal report 2. Copy of the Settlement/Closing Disclosure Statement and copy of the warranty deed evidencing no liens or reflect the release of liens 3. Acquisition and transfer of ownership proof

	3. If inherited, gift, etc., use the current appraised value	
Trade Equity	1. If the traded MH has been owned by the borrower(s) more than 12 months before application, use 90% of the retail value based on the NADA Manufactured Housing Appraisal Guide 2. If the traded MH has been owned by the borrower(s) less than 12 months before application, use the lower of: • 90% of the retail value based on NADA Manufactured Housing Appraisal Guide, or • Lowest price sold during that 12-month period.	• Lien search results verifying ownership and existence of liens on MH and land (if included) • Proof of title transfer and satisfaction of existing liens on traded MH

Titling a Manufactured Home as Real Property

Documentation in the file evidencing:

- Manufactured Home is legally classified as real property.
- Manufactured Home is properly titled (title insurance with ALTA Form 7.1 endorsement (where available), ALTA 7.0 endorsement or equivalent endorsement).
- Lien on the Manufactured Home and the land on which it is permanently affixed secures the Mortgage, and the lien has been properly created, evidenced, and perfected.
- If the subject is a new Manufactured Home, a copy of the manufacturer's invoice and Manufactured Home Purchase Agreement has been provided regardless of the transaction type.
- Borrower affidavit acknowledging intent for Manufactured Home to be permanently part of the real property securing the mortgage.

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- Insured closing protection letter, unless the letter is not allowed under state law or regulations.

Note: For complete title and lien requirements, refer to Guide Section 5703.7.

Additions and Structural Modifications

Manufactured homes that have an addition, structural modification, or change to the living area are eligible under certain conditions. If the state in which the property is located requires inspection by a state agency to approve modifications to the property, then the lender is required to confirm that the property has met the requirement. However, if the state does not have this requirement, then the structural modification must be inspected and be deemed structurally sound by a third party who is regulated by the state and is qualified to make the determination. In all cases, the satisfactory inspection report must be retained in the mortgage loan file.

Typically, minor changes such as the addition of a deck or covered porch do not require an inspection.

Property with an Accessory Dwelling Unit (ADU)

- If the subject property has an ADU that is also a manufactured home, the property is ineligible for financing
- An ADU that is a stick-built dwelling is permitted; all requirements for an ADU must be met, refer to the Accessory Units (ADU) Freddie Mac section for guidance

Factory Built Housing Appraisal Requirements and Standards

Factory Built Housing

Factory-built housing is not built on a permanent chassis. Modular, prefabricated, panelized, or sectional housing is not considered manufactured housing and is eligible as a 1-unit property.

- The property must assume the characteristics of site-built housing.
- The property must be legally classified as real property.
- The property must conform to all local building codes in the city, town, state where the property is located.

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- Any purchase, conveyance, or financing must be evidenced by a valid and enforceable mortgage or deed of trust recorded in the land records and represents a single real estate transaction under applicable state law.

Condo Appraisal Requirements

A condo project is one in which individual owners hold title to units in the project along with an undivided interest in the common areas of the project.

The appraisal of an individual condo unit requires the analysis of the condo project as well as the unit. The value and marketability of the unit in a project depend on the marketability and appeal of the overall project. The appraiser must pay attention to:

- The location of the unit within the project
- The amenities in the project
- The amount and purpose of the owners association assessments

Leasehold Estate

Mortgages secured by properties on leasehold estates in areas in which this type of property ownership has received market acceptance are acceptable. The mortgage must be secured by the property improvements and the borrower's leasehold interest in the land. Mortgages secured by manufactured homes located on leasehold estates are not eligible.

The leasehold estate and the improvements must:

- Constitute real property,
- Be subject to the mortgage lien, and
- Be insured by the lender's title policy

The leasehold estate and the mortgage must not be impaired by any merger of title between the lessor and lessee.

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Lease Requirements

A leasehold estate gives the borrower the right to use and occupy the real property under the provision of a lease agreement or ground lease for a defined period of time so long as the conditions of the lease are met.

Compliance with all requirements for leases associated with leasehold estate loans is required:

- The term of the leasehold estate must run for at least five years beyond the maturity date of the loan unless fee simple title will vest at an earlier date for the borrower.
- The lease must provide that the leasehold can be assigned, transferred, mortgaged, and sublet an unlimited number of times either without restriction or on payment of a reasonable fee and delivery of reasonable documentation to the lessor. The lessor may not require a credit review or impose other qualifying criteria on any assignee, transferee, mortgagee, or sublessee.
- The lease must provide for the borrower to retain voting rights in any homeowners' association.
- The lease must provide that in addition to the obligation to pay lease rents, the borrower will pay taxes, insurance, and homeowners' association dues (if applicable), related to the land in addition to those they are paying on the improvements.
- The lease must be valid, in good standing, and in full force and effect in all respects.
- The lease must not include any default provisions that could give rise to forfeiture or termination of the lease, except for nonpayment of the lease rents.
- The lease must include provisions to protect the mortgagee's interests in the event of a property condemnation.
- The lease must provide lenders with
  - the right to receive a minimum of 30 days' notice of any default by the borrower (monetary or non-monetary), and
  - the option to either cure the default or take over the borrower's rights under the lease
  - Freddie Mac:

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        - The lease is not required to include a notice of default provision if the property is located in Maryland and applicable State law provides for all lessors to register residential leases with the State and requires the lessor to send written notice of default to the leasehold mortgagee no less than 30 days prior to the lessor filing an action of possession

Additional Eligibility Requirements

- The following requirements must be met before a leasehold estate loan can be delivered:
    - All lease rents, other payments, or assessments that have become due must be paid.
    - The borrower must not be in default under any other provision of the lease, nor may such a default have been claimed by the lessor.

Leasehold Appraisal Requirements

The appraisal for a property with a Leasehold Interest must have a thorough, clear, and detailed narrative that identifies the terms, restrictions, and conditions of the lease agreements of the ground lease in the addendum to the appraisal report.

The appraiser must address what effect, if any, the terms, restrictions, conditions of the lease agreement or ground lease have on the value and marketability of the property.

When the leaseholder is a community land trust, there may be restrictions on the purchase and resale of the property. See the Community Land Trust Appraisal section for further detail.

Comparable Selection Requirements for Leasehold Interests

- If there are sufficient closed comparable property sales with similar leasehold interests, the appraiser must use those sales in the analysis of the market value of the subject property.
- If not enough comparable sales with the same lease terms and restrictions are available, appraisers may use sales of similar properties with different lease terms or, if necessary, properties sold as fee simple estates. The appraiser must explain why the use of these sales is appropriate and make the appropriate adjustments to reflect the market reaction to the different lease terms or property rights appraised.

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Community Land Trust Appraisal Requirements

The appraiser must be knowledgeable and experienced in the direct capitalization and the market derivation of capitalization rates necessary to appraise a property subject to a leasehold estate held by a community land trust. Appraising properties in Community Land Trusts will be considered a Complex Transaction. See the section Complex Transactions for specific requirements.

Requirements:

- The appraiser must analyze the property subject to the ground lease when a leasehold interest is held by a community land trust. Community land trusts typically subsidize the sales price to the borrower so that the price may be significantly less than the market value of the leasehold interest in the property.
- The appraised value of the leasehold interest in the property must be well supported and correctly developed by the appraiser. The resale restrictions, as well as other restrictions that may be included in the ground lease, can also affect the value of the property.
- The appraiser must develop the opinion of value for the leasehold interest under the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions that the ground lease rider removes when Cardinal has to dispose of a property acquired through foreclosure.
- The appraiser must use a three-step process to develop an opinion of value as detailed below:

Step	The Appraiser must Determine
1	the fee simple value of the property by using the sales comparison analysis approach to value,
2	the applicable capitalization rate and convert the income from the ground lease into a leased fee value by using the market-derived capitalization rate, and
3	the leasehold value by reducing the fee simple value by the lease fee value. (For detailed information related to this process, see below.)

Note: When this appraisal technique is used, there is no need to document the actual land value of the security property.

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On the actual appraisal report form, the appraiser must:

- Indicate "leasehold" as the property rights appraised
- Provide the applicable ground rent paid to the community land trust
- Show the estimated fee simple value for the property in the Sales Comparison Approach adjustment grid
- Report the "leasehold value" as the indicated value conclusion
- Check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered.

Comparable Selection Requirements

The appraiser must use comparable sales of similar properties that are owned as fee simple estates.

- If this is not possible, the appraiser may use sales of properties that are subject to other types of leasehold estates as long as they make appropriate adjustments, based on the terms of their leases, to reflect a fee simple interest.
- When the community or neighborhood has sales activity for other leasehold estates held by a community land trust, the appraiser must discuss them in the appraisal report but must not use them as comparable sales. These sales transactions would not be comparable to the hypothetical condition that the property rights being appraised are the leasehold interest without the resale and other restrictions.

Capitalization Rate

When the community has an active real estate market that includes sales of properties owned as fee simple estates and sales of properties subject to leasehold estates other than those held by community land trusts, the appraiser can use the most direct method for determining the capitalization rate, extracting it from the market activity.

- To extract the capitalization rate, the appraiser must divide the annual ground rent for the properties subject to leasehold estates by the difference in the sales prices for the comparable

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sales of properties owned as fee simple estates and the comparable sales of properties subject to leasehold estates.

- If there are no available comparable sales of properties subject to leasehold estates other than those held by a community land trust, the appraiser must develop a capitalization rate by comparing alternative low-risk investment rates, such as the rates for long-term bonds, and selecting a rate that best reflects a "riskless" (safe) rate.

Determining Leasehold Value

To determine the leasehold value of the subject property, the appraiser must first convert the annual income from the community land trust's ground lease into a leased fee value by dividing the income by the market-derived capitalization rate. The appraiser must then reduce the estimated fee simple value of the subject property by this leased fee value to arrive at their opinion of the leasehold value of the subject property.

Addendum to the Appraisal Report

The appraiser must attach an addendum to the appraisal report to provide any information that cannot otherwise be presented on the appraisal report form. As previously mentioned, the appraiser must check the box "as is" and include in the addendum the development of the capitalization rate and an expanded discussion of the comparable sales used and considered. The addendum must also include the following statement:

> *"This appraisal is made on the basis of the hypothetical condition that the property rights being appraised are the leasehold interest without resale and other restrictions that are removed by the Community Land Trust Ground Lease Rider."*

Environmental Concerns

Properties affected by environmental hazards are acceptable if the effect of the hazard is measurable through an analysis of comparable market data as of the effective date of the appraisal. The appraiser reflects in the appraisal report any adverse effect that the hazard has on the value and marketability of the subject property or indicates that the comparable market data reveals no buyer resistance to the hazard.

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Properties located in areas on the EPA's Comprehensive Environmental Response Compensation and Liability Information System in the following categories must be carefully reviewed to assess the impact on marketability, value, and the health and safety risks to any occupants:

- May be potentially hazardous and require preliminary investigation.
- No further remedial action is planned.
- Final and proposed National Priorities List (NPL) may pose a long-term threat to public health or the environment.

Properties affected by asbestos-containing materials, urea-formaldehyde insulation, or radon gas may be eligible for financing if the conditions are common to the subject market area. In these cases, an environmental consultant must be retained by the borrower and provide a report or certification of the environmental status of the property for review by the underwriter.

Appraisal Requirements

When the appraiser has knowledge of any hazardous conditions either in or on the subject property or any site within the vicinity of the property, including but not limited to, the presence of hazardous wastes, toxic substances, asbestos-containing materials, urea formaldehyde insulation, or radon gas the appraiser must:

- Note the hazardous condition in the report.
- Comment on any influence the condition has on the property's value and marketability and measure it against the comparable market data or indicate that there is no market resistance to the influence.
- Make appropriate adjustments in the overall analysis.
- The comparables considered must be from the same affected area in order to reflect the negative value effect on the subject property correctly.

Any information obtained by Cardinal, whether from the appraisal, seller, buyer, real estate agents involved in the transaction, must be documented in the loan file. Cardinal must inform the borrower

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about any hazardous or potentially hazardous conditions present in or on the subject property or in the immediate vicinity.

Mixed-Use Properties

Properties that have a business use in addition to their residential use, such as a property with space set aside for a daycare facility, beauty or barbershop, or a doctor's office, are eligible for financing through Cardinal, provided:

- The property is a 1-unit dwelling that the borrower occupies as a principal residence;
- The borrower is both the owner and the operator of the business;
- The property is primarily residential in nature;
- The dwelling may not be modified in a manner that has an adverse impact on its marketability as a residential property;
- Non-residential use is legally permitted; and
- A minimum of 51 percent of the entire building's square footage is for residential use.

Appraisal Waivers

When AUS issues an Appraisal Waiver (FNMA's Value Acceptance/ Freddie Mac's ACE), the value estimate submitted is accepted as the market value for the subject property and provides relief from enforcement of representations and warranties on the value, condition, and marketability of the property.

On certain transactions, an Appraisal Waiver along with a Property Data Report (Value Acceptance/ACE + PDR) may be issued. The determination is made by DU or LPA and will be reflected in the AUS feedback results. When the Value Acceptance/ACE + PDR option is accepted and a PDR has been used to originate the mortgage, the estimated value is acceptable for the purposes of underwriting.

Refer to the Property Data Report (Value Acceptance/ACE + PDR) section for full guidelines.

Transactions Eligible for Appraisal Waiver

- 1-unit Properties Including Condos

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- Principal residence, second home, and investment properties where the borrower is not using rental income on the subject to qualify
- Certain purchase, limited cash-out, and cash-out refinance transactions
- Case files with an Approve/Eligible or Accept/Eligible recommendation
- Texas Section 50(a)(4) mortgages

Appraisal Waiver Eligibility Characteristics

If the AUS system offers the option to waive the appraisal requirement and the product allows for the waiver, the waiver may be exercised when:

- The final submission of the loan casefile to the AUS resulted in an Appraisal Waiver,
- An appraisal has not been obtained for the transaction,
- The Appraisal Waiver offer is not more than four months old on the note date

Appraisal Waiver Characteristics	Fannie Mae	Freddie Mac
Purchases		
Primary Residence	Up to 80% LTV/CLTV	Up to 80% LTV/CLTV
Second Home	Up to 80% LTV/CLTV	Up to 80% LTV/CLTV
Investment Property	Ineligible	Ineligible
Limited Cash-Out Refinances		
Primary Residence	Up to 90% LTV/CLTV	Up to 90% LTV/CLTV
Second Home	Up to 90% LTV/CLTV	Up to 90% LTV/CLTV
Investment Property	Up to 75% LTV/CLTV	Ineligible
Cash-Out Refinances		
Primary Residence	Up to 70% LTV/CLTV	Up to 70% LTV/CLTV
Second Home	Up to 60% LTV/CLTV	Up to 60% LTV/CLTV

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Investment Property	Up to 60% LTV/CLTV	Ineligible
All Transactions		
2 to 4 Units	Ineligible	Ineligible
If Purchase Price or Estimate of Value equal to $1,000,000	Ineligible	Eligible
If Purchase Price or Estimate of Value is greater than $1,000,000	Ineligible	Ineligible
If Purchase Price or Estimate of Value less than $1,000,000	Eligible	Eligible
Manufactured Homes, Cooperatives, Leasehold properties, community land trust homes, or other properties with certain resale restrictions*	Ineligible	Ineligible
Age-Based resale restrictions	Ineligible	Eligible
Construction/Renovation Loans	Ineligible	Ineligible
Texas Equity 50(a)(6)	Ineligible	Ineligible
Texas Equity 50(a)(4)	Eligible	Eligible
Gift of Equity Transactions	Ineligible	Non-Arm's Length transactions are ineligible
Rental Income Required on Subject Properties	Ineligible	Non-Arm's Length transactions are ineligible
Rental Income used to qualify the borrower when generated from an Accessory Dwelling Unity (ADU)	Ineligible	Ineligible
*For certain Freddie Mac transactions, properties with age-based resale restrictions are eligible for appraisal waivers. Properties with income-based resale restrictions remain ineligible for a waiver.		

Identifying the Property Type

The property type can be determined by the title report or a Corelogic Fraud Report. If an Appraisal

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Waiver is present, the property type must be identified to ensure whether the subject is a PUD or Condominium. Once determined, the correct type should be marked, and the Project Name should be added to the Property Screen in Octane.

Ineligible Transactions

In addition to the limitations listed in the Appraisal Waiver Eligibility Characteristics table, the following properties are ineligible for an Appraisal Waiver:

- Properties located in a disaster-impacted area. Refer to the Compliance | Natural Disaster Operations Policy for guidance.
- Leasehold properties, community land trust homes, or other properties with resale restrictions
  - Fannie Mae:
    - This includes loan case files using the Affordable LTV feature and deed restrictions that supersede market pricing at the time of sale of the property. A community land trust or other deed restriction that does not restrict the future sales price of the property but have deed restrictions based on other criteria, such as borrower income or age, are eligible for a desktop appraisal or appraisal waiver
- Construction and construction-to-permanent loans
- Loans with Ineligible recommendations
- Investment properties when the borrower is using subject rental income to qualify
- Seller-Owned Modified Mortgages that are Home Possible Mortgages (Freddie Mac)
- Transactions using Gifts of Equity
- Loans for which the mortgage insurance provider requires an appraisal

An appraisal is required if:

- The AUS does not correctly identify any of the ineligible criteria as listed above

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- An appraisal is required by law
- The underwriter believes that an appraisal is warranted based on information about the property or subsequent events
- The borrower requests an appraisal
- An appraisal has been completed and delivered to Fannie Mae or Freddie Mac
    - **Note**: Fannie Mae will permit an Appraisal Waiver (Value Acceptance) for a recently constructed property that is 100% complete when there is an existing “as is” prior appraisal for the subject property. For example, an appraisal of the subject property may have been performed for a different lender or borrower, but that loan did not close. The waiver may be executed when the loan meets all other eligibility requirements for the transaction.

Repairs Noted on the Purchase Contract

If the Purchase Contract identifies that Major Repairs are required, the transaction will no longer be eligible for an Appraisal Waiver and the repairs and appraisal must be completed before final loan approval.

Examples of Major Repairs	• Active roof leaks or significant plumbing leaks, • Significant water damage, • Damaged roof or foundations, • Failing or dysfunctional mechanical or sanitary systems, • A potentially contaminated water source, • Severe cracks in foundations or walls, • Any active infestation, and more
Examples of Minor Repairs *If the Purchase Contract shows that Minor Repairs are required, the transaction may still be eligible for a waiver*	• Minor damage to doors, windows, walls, and floors, • Missing light fixtures, • Minor plumbing leaks that do not cause damage (such as dripping faucets), • Unfinished exterior improvements

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	○ exterior improvements may be considered if cosmetic in nature only and must not fall under Major Repairs as noted above • Incomplete driveways, sidewalks, landscaping and more
	If the underwriter identifies minor repair requirements, they will need to add the transaction tag: "Repair Completion Required." This will generate the new "Evidence of Repair Completion" Smart Document, which will house the documentation showing that minor repairs are completed before final loan approval. The underwriter will then need to manually review the loan to confirm that it is eligible for an appraisal waiver. Note: If the Purchase Contract only indicates a repair credit without specifying which items are in need of repair, an itemized list of the identified items must be obtained.

Property Data Report (FNMA Value Acceptance + PDR / Freddie Mac ACE + PDR)

FNMA

For certain loan casefiles, DU offers Value Acceptance + Property Data - an option that requires interior and exterior property data collection to verify property eligibility. An appraisal is not required.

Eligible Mortgages

- The Mortgage must be secured by a 1-unit property, or Condo unit (attached or detached)

Ineligible Mortgages

The following transactions are not eligible for Value Acceptance + PDR:

- Two- to four-unit properties;

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- Co-op units;
- Manufactured homes;
- Proposed construction;
- Construction-to-permanent loans (single-close and two-close);
- Investment properties when rental income is used to qualify the borrower;
- HomeStyle Renovation and HomeStyle Energy loans;
- Texas 50(a)(6) loans;
- Leasehold properties;
- Community land trusts or other properties with resale price restrictions, which include loan casefiles using the Affordable LTV feature;
- Transactions where either the purchase price or estimated value provided to DU is $1,000,000 or more;
- Transactions using gifts of equity;
- DU loan casefiles that receive an Ineligible recommendation; and
- Manually underwritten loans

Property Data Collection

The property data collection consists of a visual observation of the interior and exterior areas of the subject property. It must be performed by a trained and vetted property data collector and must adhere to Fannie Mae's Property Data Standard. The Standard sets forth the minimum requirements for collection of subject property data including photos and a floor plan conforming to the ANSI Standard.

After the property data collection is completed, it must be successfully submitted to Fannie Mae's Property Data API. See Fannie Mae's website for more information about the UPD and the Fannie Mae Property Data API and access.

Exercising Value Acceptance + Property Data

A value acceptance + property data may only be exercised when:

- The final submission of the loan casefile to DU resulted in an eligibility message for value acceptance + property data,
- Property data collection is submitted to the Property Data API,
- An appraisal is not obtained for the transaction,

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- The offer is not more than four months old on the date of the Note and mortgage, and
- Special Feature Code 774 is used at loan delivery

The property data collection is only valid for 12 months from date of collection. If the value acceptance + property data offer is lost due to changes in qualifying loan characteristics after the property data collection was obtained, the lender may obtain a desktop or traditional appraisal report as specified by DU.

Fannie Mae has provided clarification that if DU issues the Value Acceptance + Property Data Report (PDR) and a subsequent run of DU issues a Value Acceptance only (no PDR), the Value Acceptance is not eligible if the PDR has been completed. The loan must be delivered with the completed Property Data Report.

Property Data Collection with Needed Repairs or Completion Verification

The lender must represent and warrant the property:

- Does not have safety, soundness, or structural integrity issues,
- Does not have significant items of incomplete construction or renovation, and
- Meets Fannie Mae's property eligibility requirements (see B2-3-01, General Property Eligibility)

To make these representations and warranties in the absence of an appraisal, the descriptive information and photo exhibits from the property data collection must be examined to determine whether the property meets the above requirements.

When the property data collection evidences any items failing eligibility requirements, a professionally prepared report may need to be obtained from a qualified professional to confirm the eligibility of the property and if repairs are required (well, septic, foundation, roof, electrical, mold, etc.). If repairs or alterations are necessary to bring the property into compliance with Fannie Mae's eligibility requirements, satisfactory evidence and documentation must be obtained to show the condition has been corrected or completed prior to sale of the loan.

Freddie Mac

For certain Loan Product Advisor Mortgages, the automated collateral evaluation provides the option to accept ACE+ PDR and originate the mortgage with a PDR.

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If the ACE+ PDR option is accepted, for purchase transactions Freddie Mac will accept the purchase price as the value of the Mortgaged Premises and for refinance transactions Freddie Mac will accept the estimated value as the value of the Mortgaged Premises.

ACE+ PDR eligibility

For a Mortgage to be eligible for the ACE+ PDR option in lieu of an appraisal:

- The Mortgage must be submitted to Loan Product Advisor and receive a Risk Class of Accept,
- The last Feedback Certificate must indicate that the Mortgage is eligible for a PDR (this represents the "ACE+ PDR offer"), and
- The final submission of the Mortgage to Loan Selling Advisor® must indicate representation and warranty relief status is "Y" or "Yes"

Freddie Mac has provided clarification that if LPA issues the ACE + Property Data Report (PDR) and a subsequent run of LPA issues an ACE only (no PDR), the ACE is not eligible if the PDR has been completed. The loan must be delivered with the completed Property Data Report.

Property Data Collection

For loans with Application Received Dates on or after April 1, 2024, the UPD will be required, and PDRs must be submitted through the Beyond ACE (bACE) API. The Freddie Mac Property Dataset (PDR v2.0) will no longer be accepted.

For loans with Application Received Dates prior to April 1, 2024, both the UPD and Freddie Mac PDR v2.0 will be accepted.

Refer to Freddie Mac's website for more information.

Eligible Mortgages

To be eligible for an ACE+ PDR offer, the mortgage must:

- Be secured by a 1-unit dwelling that is not a manufactured home
- Be secured by a primary residence or second home
- Comply with the following maximum loan-to-value (LTV)/total LTV (TLTV) ratio requirements:

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ACE + PDR Eligibility		
Purpose	**Occupancy Type**	**Maximum LTV/TLTV ratios**
Purchase	Primary Residence or Second Home	80%
No Cash-out Refinance	Primary Residence or Second Home	90%
Cash-out Refinance	Primary Residence	70%
	Second Home	60%

Ineligible Mortgages

The following Mortgages are not eligible for delivery with an ACE+ PDR:

- Mortgages for which an appraisal has been obtained in connection with the Mortgage;
- Texas Equity Section 50(a)(6) Mortgages;
- Mortgages secured by Mortgaged Premises that are leasehold estates, including Community Land Trust Mortgages;
- Mortgages secured by Manufactured Homes, Cooperative Share Loans, Investment Properties and 2- to 4-unit properties;
- Mortgages secured by Mortgaged Premises subject to resale restrictions, excluding those subject to age-based resale restrictions;
- Mortgages secured by Mortgaged Premises with an estimate of value greater than $1,000,000;
- Construction Conversion and Renovation Mortgages, CHOICERenovation® Mortgages and GreenCHOICE® Mortgages;
- Seller-Owned Modified Mortgages that are Home Possible Mortgages;
- Mortgages secured by a property acquired in a Non-arm's Length Transaction;
- Mortgages secured by a property where the property owner at the time of sale (i.e., the property seller) is a lender or government entity

In addition, Sellers may not accept the ACE+ PDR offer if any of the following apply:

- The Seller is required by law or regulation to obtain an appraisal,
- The Seller is using rental income from the subject 1-unit Primary Residence ADU for qualification purposes,

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- The Mortgage requires an upgrade to an appraisal (e.g., adverse site conditions or external factors, mixed-use, etc.); see ACE+ PDR Upgrade Requirements below.

A Seller that has accepted the ACE+ PDR offer in connection with a Mortgage must not make any representation that Freddie Mac has performed a property review or obtained a valuation of the Mortgaged Premises. The signed PDR must be retained in the Mortgage file.

Age of the Property Data Report

The effective date of the PDR is the date the data was collected, and that date must be no more than 12 months prior to the Note Date of the mortgage. If the effective date of the PDR is more than 12 months prior to the Note Date of the mortgage, a new PDR is required.

For Mortgages with Settlement Dates more than 120 days after the Note Date, Cardinal must warrant the value of the subject property on the Settlement Date is not less than the estimated value used when underwriting the Mortgage in Loan Product Advisor.

Acceptable Age of ACE + PDR Offer

The ACE+ PDR offer is valid for 120 days. If the offer is more than 120 days old as of the Note Date, the loan must be resubmitted to LPA to determine whether it's still eligible for ACE+ PDR.

PDR Completed for a Different Lender

A PDR that was completed for a different lender may be used if the loan meets the ACE+ PDR requirements, the PDR was obtained in compliance with the Property Data Collector Independence Requirements (PDCIR) and the effective date of the PDR (i.e., the date the property data is collected on-site) is not more than 12 months prior to the Note Date of the loan. If the effective date of the PDR is more than 12 months prior to the Note Date, a new PDR must be obtained.

Required Exhibits

The following exhibits are required for a PDR:

- Building sketch and floor plan. The floor plan must display dimensions and calculations reflecting the gross living area of the subject property that includes interior walls and representation of any functional obsolescence

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- Photographs of the subject property containing the following:
    - A front view of the subject property;
    - A rear view of the subject property;
    - A view of the sides of the subject property not wholly visible in the front or rear photographs;
    - A street scene (both directions) identifying the location of the subject property and neighboring improvements;
    - All interior rooms of the subject property including, but not limited to, foyer, kitchen, living room, bedroom(s), bathroom(s), utility room, laundry room, basement (finished and unfinished areas), attic area accessed via a permanent staircase (finished and unfinished areas), etc.;
    - Interior and exterior of any significant (permanently affixed) outbuildings on the subject site, including an accessory dwelling unit (not required for small sheds);
    - Any physical deterioration, improvements, amenities and any observed issues or external influences

PDR's with Required Repairs and/or Inspections

The PDR contains a data set that must be reviewed to determine if the subject property meets Freddie Mac's eligibility requirements. The property data collector must also specify when the subject property has any required "repairs or alterations" or will require an "inspection" by a trained professional when the property data collector cannot make the determination if repairs are needed.

When the condition of the subject property meets the definition for condition rating C5 or C6 or the quality of the subject property meets the definition for quality rating Q6, the mortgage is not eligible for delivery unless the deficiencies resulting in a C5, C6 or Q6 rating have been remedied prior to delivery.

For PDRs completed with required repairs or alterations, a Completion Report, performed by a property data collector that verifies the repairs or alterations have been completed must be obtained. The Completion Report must:

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- Contain all the data points and certifications in the Completion Report data set and the Completion Report certifications,
- Include photographs of the completed repairs or alterations,
- Be dated before the Settlement Date, and
- Be retained in the Mortgage file

For PDRs completed with an inspection required to identify if repairs are needed, a licensed professional trained in the particular field of concern (e.g., structural engineer, plumber, pest inspector, etc.) must perform the inspection of the property. The inspector must provide either:

- A signed report that includes their license number, when available, stating the repair(s) is not required, or
- A signed report or invoice that includes their licensing number, when available, stating the repair(s) has been completed and the issue corrected

The signed report or invoice must be:

- Dated before the Settlement Date, and
- Retained in the Mortgage file

ACE + PDR Upgrade Requirements

In certain situations, review of the PDR may reveal that the subject property is not eligible for the offering or has characteristics or conditions that require an upgrade to a full appraisal. These characteristics or conditions include:

- Adverse site conditions or external factors (i.e., extreme slope, erosion, sinkhole, wetlands, substantial junk or trash, failing structures, easements, encroachments, environmental conditions or land uses)
- The building status is “Proposed”
- 0 bedrooms above grade and/or 0 bathrooms above grade

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- A measured gross living area above grade of fewer than 400 square feet
- Mixed-use (i.e., altered or modified specifically to support or facilitate any non-residential or income producing use)
- The PDR does not provide sufficient information about both the interior and exterior physical characteristics of the subject property for an appraiser to develop a credible and adequately supported appraisal
- The appraiser cannot reconcile significant discrepancies (e.g., room count, living area, size, condition, etc.) among available data sources, including the PDR, to develop a credible and adequately supported appraisal

Desktop Appraisals

Fannie Mae Form 1004 Desktop Appraisal or Freddie Mac Form 70D Desktop Appraisal are permitted for certain transactions. The minimum scope of work for the desktop appraisal does not include a current inspection of the subject property or comparable sales by the appraiser; the appraiser relies on data obtained from alternative methods or sources to identify property characteristics and condition.

AUS findings will reflect eligibility for the desktop appraisal.

Age of Desktop Appraisal

A desktop appraisal may not have an effective date that is more than 120 days prior to the Note Date. If the Note Date is more than 120 days after the effective date of the desktop appraisal, a new desktop appraisal (Form 70D) is required. An appraisal update (Form 442) is not sufficient.

Fannie Mae

Eligible Transactions

To be eligible for a desktop appraisal, transactions must meet the following criteria:

- One-unit property (including those with an ADU and units in a PUD),
- Principal residence,
- Purchase transaction (including new construction),

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- LTV ratio less than or equal to 90%, and
- DU must receive an Approve/Eligible recommendation

Ineligible Transactions

- Two- to four-unit properties,
- Condo and co-op units,
- Manufactured homes,
- Construction-to-permanent loans (single-close and two-close),
- Second homes and investment properties,
- All refinances,
- HomeReady, HomeStyle Renovation, and HomeStyle Energy loans,
- Community Seconds with a subsidized sales price,
- Community land trusts, or other properties with resale price restrictions (loan casefiles using the Affordable LTV feature)

The desktop appraisal report requires the same exhibits as traditional appraisals, plus a floor plan. The Square Footage-Method for Calculating: ANSI Z765-2021 standard and exception code (GXX001- in the Additional Features field) is not required for desktop appraisals, but encouraged when feasible.

Freddie Mac

Eligible Transactions

To be eligible for a desktop appraisal, transactions must meet the following criteria:

- LPA must receive an Accept recommendation,
- The Last Feedback Certificate must indicate that the Mortgage is eligible for a desktop appraisal,

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- Each Mortgage must be delivered with the required ULDD Data Points,
- Purchase transaction,
- One-unit Primary Residence,
- Each Mortgage must have a loan-to-value (LTV) ratio less than or equal to 90%. For purposes of desktop appraisal eligibility, the LTV ratio is calculated using the sales price

Ineligible Transactions

- Condominium Units,
- Manufactured Homes,
- Mortgages secured by a property that is undergoing renovation or rehabilitation,
- Mortgages secured by purchase transactions that are Non-arm's Length Transactions or when the property owner at the time of sale (i.e., the property seller) is a lender or a government entity,
- Mortgages secured by Mortgaged Premises subject to resale restrictions, excluding those subject to age-based resale restrictions,
- Construction Conversion and Renovation Mortgages,
- Community Land Trust Mortgages,
- GreenCHOICE® Mortgages,
- CHOICERenovation® Mortgages,
- Cooperative Share Loans,
- Refinance Mortgages,
- Mortgages secured by mixed-use properties

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Upgrade Requirements

The appraisal must be upgraded to a full appraisal when one or more of the following conditions exist:

- The appraiser cannot obtain sufficient information about both the interior and exterior physical characteristics of the subject property from third-party data sources in order to develop an accurate and adequately supported appraisal
- The appraiser cannot reconcile significant discrepancies (e.g., room count, gross living area, size, condition, etc.) among available data sources
- The subject property is undergoing renovation or rehabilitation
- The data sources used to develop the appraisal, including the sales contract, reflect the presence of physical deficiencies or an adverse condition(s) indicating the property has a condition rating of C5 or C6 or the quality rating is Q6

Transferring Appraisals

Cardinal Financial will accept transferred appraisals on Conforming programs. Cardinal will attempt to facilitate a successful appraisal transfer for seven (7) business days from the initial date of request to mortgage operations. If the transfer is not completed within the seven-day period, a new appraisal will be ordered.

Note: If the appraisal has been paid for before the transaction with Cardinal (i.e., appraisal completed for a different lender), the appraisal fee must be disclosed as POC as it is a cost to the current loan.

The appraiser may not be on the Cardinal Ineligible Appraiser List, including but not limited to; the Freddie Mac Exclusionary List or the Fannie Mae Ineligible List.

Cardinal must receive the following documents:

- The original color PDF of the appraisal from the transferring lender or the lender's appraisal management company (AMC).
- The XML appraisal file from the transferring lender (not from the broker) or the lender's AMC.

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- The most recent version of the successful SSR (Submission Summary Report from Fannie Mae and Freddie Mac) results from the transferring lender or the lender's AMC, indicating a confirmation of data transmission. If Cardinal Financial was not the entity that remitted the data, our name or loan number would not be indicated on the report.
- A copy of the AMC's invoice as it was submitted to the lender when the appraisal was completed to determine if the appraisal has been paid for or will need to be collected through settlement.
- The Appraiser Independence Requirement (A.I.R.) Certification.
- A copy of the appraiser's E&O insurance.

In addition:

- If any modifications, corrections, or material changes are required to the appraisal, the original appraiser must cooperate.
- Changes to seller-paid closing costs or changes to the contract price do not require an updated appraisal.
- If the appraiser fails to cooperate with any requests, a new appraisal must be obtained.
- The transferred appraisal may not be expired at the time of transfer. Therefore, the appraisal report (effective date) may not be more than 120 days old by the date of the TRID application date of the subject transaction.
- If the property was appraised "subject to" and the 1004D has been completed by the transferring lender, it may be transferred to Cardinal.
- If the property was appraised "subject to" and the 1004D has not been completed by the transferring lender, the 1004D must be ordered through Mercury; the appraisal may still be transferred to Cardinal.
- An appraisal which has been transferred more than one time is not permitted (transferred from one lender to another lender, then to Cardinal is unacceptable).

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- Appraisals ordered directly by wholesale brokers are not acceptable. Wholesale brokers may place orders through lender portals, but the lender's AMC must complete the report. The lender, not the broker name, must be shown on the appraisal.

- The transferred appraisal must be AIR compliant.

For guidance on Appraisal Conversions, i.e. Conventional to FHA product type, refer to Chapter 2 Documentation Standards.

Valuation Review

Cardinal requires the underwriter to perform a thorough review of the appraisal on each loan transaction to ensure that the subject property meets Cardinal's requirements. The underwriter must review:

- The appraisal for the subject property

- Loan safe report

- Fannie Mae Collateral Underwriter report

- The automated Underwriting Findings report

If any of the data indicates a possible valuation issue, an AVM must be ordered from a Cardinal-approved vendor. If the AVM value is within 10% of the appraised value, then the underwriter may accept the valuation.

Submission Summary Report (SSR)

Cardinal requires the submission of the Collateral Underwriter (CU) or Loan Collateral Advisor (LCA) Submission Summary Report (SSR) on all conventional files for supported property types. All SSR quality and overvaluation flags with a risk score between 4.01 and 5.0 must have the appropriate steps taken to ensure the validity of the value on the appraisal. Proper documentation may include but is not limited to:

- Comments from the underwriter
- Comments from the appraiser
- Field review

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- A desk review

Additional discretion may be required in evaluating the validity of flags generated by appraisals on new construction, as the most up-to-date mapping information may not be available for the system to accurately evaluate comparables.

If a CU or LCA risk score cannot be generated, a “999” or “99” will be returned, and a message will provide more specific information about why the appraisal could not be scored. Some “999” messages can be resolved (for example, if there is a simple data entry error). If it is not a data entry error, the appraisal should be carefully reviewed, and it is the collateral underwriter’s responsibility to properly document what steps have been taken to ensure that the value is supported.

Note: CU only analyzes appraisals in Uniform Appraisal Dataset (UAD) format on appraisal forms 1004 (Uniform Residential Appraisal Report) and 1073 (Individual Condominium Unit Appraisal Report). Appraisals submitted on other forms, including the following, are not analyzed:

- Form 2055, Exterior-Only Inspection Residential Appraisal Report;
- Form 1075, Exterior-Only Inspection Individual Condominium Unit Appraisal Report;
- Form 1004C, Manufactured Home Appraisal Report;
- Form 1025, Small Residential Income Property Appraisal Report; Form 2090, Individual Cooperative Interest Appraisal Report; and
- Form 2095, Exterior-Only Inspection Individual Cooperative Interest Appraisal Report

Collateral Review Risk Scores and Required Action		
If LCA or DU Risk Score is:	**This means:**	**And action is required as follows::**
999, 99, or N/A	CU or LCA risk score cannot be generated The agencies were unable to evaluate and provide a collateral risk score for the subject property.	A valuation product (AVM) is required; if the AVM does not meet the FSD score requirement and is greater than 10% lower than the appraised value being used for the LTV calculation, a Desk Review is required

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	Fannie's definition "The inability to geocode the subject property or an inadequate number of appraiser-provided comparables will result in an unscored appraisal ("999"). A scarcity of alternative sales observations may also cause an unscored appraisal."	
Very Low and Low-Risk Scores 1-2.5	The appraisal is not missing critical data, and there is minimal risk of overvaluation.	No action is required.
Moderate Risk Scores 3-3.5	There is some risk of overvaluation considering the appraised value, or there may be certain defects within the appraisal data and construction.	No additional action is required. Use the tools and messages available within the Submission Summary Report (SSR) and perform the usual and customary collateral review steps.
High and Very High-Risk Scores 4-5	There is a more significant risk of overvaluation, and there may be critical defects present, and additional action is required.	A valuation product (AVM) is required; if the AVM does not meet the FSD score requirement and is greater than 10% lower than the appraised value being used for the LTV calculation, a Desk Review is required

SSR Compliance Flag

The issuance of a Compliance Flag by Collateral Underwriter is an indication that there is something within the appraisal or associated data that would make that loan ineligible for delivery. These flags are very rare and must be addressed clearly and directly when they are returned on the CU findings. The flags are often a result of discrepancies, such as illegal zoning, illegal use, commercial space, more than four units, etc.

When a flag is encountered, the collateral underwriter must review the finding to determine its validity and the appropriate course of action. The underwriter should exercise caution before approving a loan pending a correction to this information, as the appraisal makes the property ineligible. If the appraiser,

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due to a typo or other error, makes a correction, the new data must be uploaded through UCDP, and the report should be reviewed again through CU messaging to ensure that the issue has been resolved.

UCDP Hard Stop Override

UCDP issues hard stops that can be manually overwritten. Collateral Underwriters may observe a "Not Successful" status when one or more of the 21 possible appraisal messages are issued. Collateral Underwriters are required to review the appraisal message(s) to verify that the information is correct as submitted, or if a new or corrected appraisal is submitted, detailed and acceptable explanations for issues raised are provided. If the information is verified as correct, and it is determined that there is no impact on loan eligibility, the collateral underwriter may request a manual override and provide a reason code to change the submission status to "Successful" in UCDP. The collateral underwriter must fully document the acceptability, rationale, and reasoning for the override.

A list of hard stop codes can be found on the UCDP section of the Fannie Mae website.

Desk Reviews

In the event an AVM does not support the property value to within a 10% variance of the original value, the underwriter may request and review a Desk Review from an alternative approved provider. If the Desk Review supports the original appraised value, the underwriter may approve and resolve the value concern.

Field Reviews

In the event that the Desk Review does not support the original valuation, then the underwriter has the option of ordering a Field Review. The Field Review must be obtained through a vendor that differs from the original vendor.

If the Field Review supports the original valuation, Cardinal will clear the loan for funding. In the event the Field Review does not support the original opinion of value, the underwriter may provide a counteroffer, loan denial, or adjust the value utilized for lending purposes at the lower supported value.

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Second Appraisals - Appraisal Appeals

A second appraisal may not be ordered, obtained, used, or paid for in connection with Conventional and Non Conventional loan transactions unless:

- There is a reasonable basis to believe that the initial appraisal had a material deficiency or was flawed or tainted, and such basis is clearly and appropriately noted in the Mortgage file, or
- Such appraisal is done pursuant to written, pre-established bona fide pre- or post-funding appraisal review or quality control processes or underwriting guidelines, and so long as Cardinal adheres to a policy of selecting the most reliable appraisal, rather than the appraisal that states the highest value, or
- a second appraisal is required by law

If an appraisal is deemed flawed and tainted, the second appraisal must be ordered through a Cardinal-approved AMC that differs from the AMC that performed the first appraisal. The request for a second appraisal must be submitted through the Credit Committee for approval; refer to the Compliance | Loan Exception Policy for additional information on flawed and tainted appraisals.

Once an appeal has been accepted and approved:

- The original appraisal must be marked as "flawed and tainted" and may not be used to complete the loan transaction; and
- For AMC transactions, the initiating AMC must be notified according to the Appraiser Misconduct and Violations section of Compliance | Appraisal Policy.
- The cost of any second appraisal ordered by Cardinal may not be charged to a borrower. However, all associated costs must be accurately reflected on the Loan Estimate or Closing Disclosure as required by the TRID Policy.

Reconciling Multiple Valuations

When a transaction results in multiple appraisals, valuation reviews, or other valuation-related documentation, the underwriter must use the most credible value and document the following on the Underwriting Approval Document:

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- Reasons for multiple valuations
- Information considered in the determination of the most credible valuation
- The specific reason(s) appraised value is considered the most credible value

Disaster Area Requirements

Events such as fires, earthquakes, landslides, hurricanes, floods, tornadoes, thunderstorms, and hail storms are natural disasters that may have impacts on loans in process or funded but not yet delivered to investors. Properties in areas where natural (or other) disasters have occurred must be evaluated in terms of the effect on the subject's habitability, marketability, and value. While the Federal Emergency Management Agency (FEMA) and states may declare disaster areas, the event does not require a declaration.

Cardinal will finance properties that are located in FEMA/Federally declared disaster areas provided the requirements in this document are adhered to and documented in the loan file.

Please follow the directive in the Compliance | Natural Disaster Operations Policy for information on inspection requirements for affected properties.

Flood Disaster Protection Act Requirements

Flood Hazard and Insurance Availability Notice

Delivery Requirements

If it is determined that the subject property is located in an SFHA, Cardinal Financial is required to send a Flood Hazard Notice (FHN) to the Borrower. The Flood Hazard Notice is provided to the customer at least three (3) calendar days before the loan is closed to ensure that:

- The customer has the opportunity to become aware of the customer's responsibilities under the NFIP; and
- Where applicable, the customer can purchase flood insurance before completion of the loan transaction.

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Receipt Requirements

The Flood Hazard Notice must be received by the borrower at least three (3) calendar days before closing. A record of the customer's receipt of the notice must be retained for the loan term. The rule does not prescribe a particular form for the record of receipt; however, Cardinal Financial will accept the following methods to document evidence of receipt:

- Borrower's wet signed acknowledgment on a copy of the notice.
- Borrower's e-signed signed acknowledgment on a copy of the notice.
- E-sign evidence confirming receipt of the notice by indicating viewed date of document entitled National Flood Disclosure Statement for Loan.

In a loan transaction involving multiple borrowers, the notice may be provided to the primary customer in the transaction.

Only one owner of a married couple must provide acceptable evidence of receipt of the disclosure.

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References

Reference List
Appraisal Foundation
Chapter 2 | Documentation Standards
Chapter 4 | Eligible Transactions
Compliance Loan Exception Policy
Compliance | Natural Disaster Operations Policy
Electronic Code of Federal Regulations (eCFR)
Federal Deposit Insurance Corporation
Natural Disaster Operations Policy
Site Section of the Appraisal Report
UCC-1 Filing
FNMA Appraisal and Property Related FAQs

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Revision History

Date	Version	Description	Approver
4.15.24	V49	Indicated Cardinal Overlays to agency guidelines by highlighting text in our signature *Riptide* color. Overlays correspond to Cardinal Retail Overlay or TPO Overlay Matrix	Kristen Bellon
4.9.24	V48	Updated Freddie Mac requirements for Manufactured Homes to allow for only one certification to evidence a Manufactured Home is built in compliance with the Federal Manufactured Home Construction and Safety Standards, by either the HUD Data Plate *or* the HUD Certification Label(s), except for a new Manufactured Home, which requires evidence of both. This change is effective immediately Added Transferred Appraisal revision stating the appraisal may not be expired at the time of transfer. Therefore, the appraisal report may not be more than 120 days old by the date of the TRID application date. This change is effective immediately	Kristen Bellon Ellen Clayson
3.7.24	V47	Added cooperative as an eligible property type for TPO	Kristen Bellon
3.5.24	V46	Moved Fannie Mae Cooperative guidelines to Chapter 11 | Condo, PUD and Cooperative Project Approval | Lending Guide	Ellen Clayson
3.5.24	–	Added clarification for FNMA Value Acceptance+PDR and Freddie Mac ACE+PDR that if AUS issues the Value Acceptance or ACE + Property Data Report (PDR) and a subsequent run of AUS issues a Value Acceptance / ACE only (no PDR), the Value Acceptance/ACE is not eligible if the PDR has been completed. The loan must be delivered with the completed Property Data Report	Kristen Bellon
2.29.24	V45	• Updated Fannie Mae Value Acceptance + PDR to permit condos (attached and detached) • Removed references to "C6 condition and Q6 quality" • Removed "property data collection to be obtained after the initial DU offer • Effective with casefiles issued on or after of 2.7.24	Kristen Bellon
2.15.24	V44	Clarified interior photograph requirements specifying photos of the main living areas should include gathering rooms and the	Kristen Bellon

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		basement photos should include both finished and unfinished areas	
2.14.24	V43	Revised requirements for Carbon Monoxide and Smoke Detector Standards depending on property construction and appraisal type	Ellen Clayson
1.24.24	V42	Added Prohibited Use of Subjective Language or Appraiser's Bias section	Kristen Bellon
12.5.23	V41	Added Warranty of Completion of Construction section specifying for proposed or newly constructed properties where the appraisal report was completed "subject to completion per plans and specifications," the Warranty of Completion of Construction may be completed to confirm completion of construction	Kristen Bellon
11.9.23	V40	Added additional guidance under Unacceptable Appraisal Practices	Kristen Bellon
11.2.23	V39	Updated Site Utilities section with clarification regarding private utilities. Removed guidance related to Private Well and Source of Hauled Water	Kristen Bellon
10.17.23	V38	Updated Manufactured Home guidance to allow either a HUD Data Plate or HUD Certification Label from previous guidance requiring both documents	Kristen Bellon
10.17.23	-	Added Mixed Use Properties and Refinances as Ineligible Transaction for Freddie Mac Desktop Appraisals	Kristen Bellon
9.13.23	V37	Added Purchase as eligible transaction type for ACE + PDR for Freddie Mac/LPA loans	Kristen Bellon
8.23.23	V36	Added Wind Load, Roof Load and Thermal Zones section which provides details of zones displayed on the HUD Data Plate. Added requirement that the zone must be verified as acceptable by the Underwriter	Kristen Bellon
8.21.23	V35	Removed Freddie Mac requirement for single-width manufactured homes that the Manufactured Home must have a date of manufacture that is 10 years or less as of the effective date of the appraisal	Kristen Bellon
7.20.23	V34	Added Cooperative Share Loans section	Kristen Bellon
6.25.23	V30	Added clarification for leasehold notice of default provision in Maryland for Freddie Mac transactions	Kristen Bellon

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6.7.23	V29	Updated Appraisal Waiver section with FNMA guidance for Appraisal Acceptance plus Property Data Report. Broke out Fannie Mae and Freddie Mac guidelines. Clarified the appraisal waiver is termed Value Acceptance for Fannie Mae and ACE for Freddie Mac	Kristen Bellon
6.5.23	V28	Added clarification under Transferring Appraisals when the property is completed 'subject-to' and requires a 1004D for repairs	Kristen Bellon
6.2.23	V27	Added additional guidance under Tax Exemptions and Abatements	Kristen Bellon
4.14.23	V26	Updated Condition Rating requirements for Fannie Mae to require properties with a C6 rating be repaired with a resulting minimum condition rating of C5	Kristen Bellon
2.16.23	V25	Added Desktop Appraisal section	Kristen Bellon
2.10.23	V24	Added guidance for Freddie Mac Appraisal Waiver plus Property Data Report (ACE+PDR)	Kristen Bellon
2.6.23	V23	Added reference and link to Chapter 4 Eligible Transactions for determining Loan to Value on a Manufactured Home	Kristen Bellon
1.16.23	V22	Added additional clarification under Repairs Noted on the Purchase Contract allowing for an inspection waiver	Kristen Bellon
1.3.23	V21	Added additional guidance under Ineligible Transactions for Appraisal Waivers	Kristen Bellon
12.11.22	V20	Clarified that Resale Restrictions for Below Market Rate programs that base the LTV solely on the appraised value are currently not permitted	Ellen Clayson
11.17.22	V19	Added additional guidance under Multiple Parcels section	Kristen Bellon
10.18.22	V18	Added clarification for a Manufactured Home with an accessory dwelling unit that is a stick-built property	Kristen Bellon

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9.30.22	V17	Added Repairs Noted on the Purchase Contract section under the Appraisal Waiver topic	Kristen Bellon
8.10.22	V16	Added ADU eligibility requirements to allow an ADU on 2- and 3-unit properties for Freddie Mac (LPA) loans only	Kristen Bellon
8.10.22	-	Added for certain Freddie Mac transactions, properties with age-based resale restrictions are eligible for ACE appraisal waivers	Kristen Bellon
8.4.22	V15	Removed requirement for single-width manufactured homes that the property be no older than 10 years for Fannie Mae transactions only (Freddie Mac single-width must be no older than 10 years as of the appraisal date)	Kristen Bellon
6.15.22	V14	Aligned manufactured home square footage for both FNMA and Freddie Mac to a minimum of 600 square feet	Kristen Bellon
6.9.22	V13	Updated allowable square footage on manufactured homes underwritten according to FNMA guidelines to have a total floor area of not less than 400 square feet. Freddie Mac still requires a minimum of 600 square feet	Kristen Bellon
4.22.22	V12	Added additional guidance under the Collateral Review Risk Scores and Required Action section for when the AVM returns with an unacceptable FSD Score and over 10% of the appraised value, a Desk Review is required	Kristen Bellon
4.1.22	V11	Added requirement for appraisals that all footprint sketches and floor plans are computer-generated (not hand-drawn)	Kristen Bellon
4.1.22		Added requirement that the appraiser used the ANSI® Z765-2021 (American National Standards Institute®) Measuring Standard in calculating the GLA and non-GLA areas of the subject property	Kristen Bellon
3.28.22	V10	Added guidance for comparable sales in newly developed condos, subdivisions, or PUDs when no settled comparable sales inside the new project are available	Kelly Dieball
3.17.22	V9	Added guidance for single-wide manufactured housing	Kristen Bellon

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2.2.22	V8	Added additional guidance for comparable sales for new (or recently converted) projects	Kristen Bellon
12.17.21	V7	Immaterial changes. Corrected grammar and formatting to align with company standards.	N/A
11.12.21	V6	Added section for Group Homes	Kristen Bellon
8.18.21	V5	Added section Identifying the Property Type with an Appraisal Waiver	Kristen Bellon
7.30.21	V4	Added additional guidance for Factory Built Housing. Removed on-frame Modular housing from the Ineligible Properties section	Kristen Bellon
7.12.21	V3	Added Submission Summary Report (SSR) Section and Collateral Review Risk Scores table	Kristen Bellon
3.29.21	V2	Added FNMA and Freddie Mac requirements for delivery of market rents when not using rental income to qualify	Kristen Bellon
2.8.21	V1	Added requirement that mixed use property is eligible provided a minimum of 51% of the building square footage is for residential use	Kristen Bellon
10.14.20	-	Added guidance for off-grid solar panel systems	Kristen Bellon
9.10.20	-	• Added additional guidance for Accessory Dwelling Units (ADU's). • Updated requirements permitting a manufactured home as an ADU	Kristen Bellon
9.9.20	-	Added additional guidance for Private Road Maintenance Agreements when utilizing Fannie Mae	Kristen Bellon
8.26.20	-	Added Impediments to Title section	Kristen Bellon
8.11.20	-	Updated Solar Panel section. Added additional documentation to be obtained and clarified when solar panel financing must be included in the CLTV	Ellen Clayson
6.15.20	-	Updated Appraisal Waiver section for LPA to permit an Automated Collateral Evaluation (ACE) on cash-out refinance transactions	Kristen Bellon
6.8.20	-	Clarified that Fannie Mae will permit an Appraisal Waiver for a	Kristen

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		recently constructed property that is 100% complete when there is an existing "as is" prior appraisal for the subject property	Bellon
6.1.20	-	Updated Unique Housing Types section to include guidance for Tiny and Container homes	Kristen Bellon
5.12.20	-	Added additional guidance for use of homestead property taxes in qualification	Ellen Clayson
4.23.20	-	Added additional guidance for Leasehold Estates	Ellen Clayson
4.15.20	-	Added guidance for Dug Wells, Springs, Lakes, Rivers, Cisterns and Holding Tanks	Erica Price
3.9.20	-	Updated Second Appraisals/Appraisal Appeals section	Ellen Clayson
12.12.19	-	• Added the requirement that a second appraisal request on Conforming and Non Conforming loans must be submitted through Credit Committee • Added section Difference Between a Solar Lease and a Solar Power Purchase Agreement	Erica Price
12.9.19	-	Added Escrow Holdback section	Ellen Clayson
12.4.19	-	• Added that a property containing two manufactured homes is ineligible for financing • Clarified that Texas Section 50(a)(4) mortgages are eligible for an appraisal waiver; Texas Section 50(a)(6) mortgages remain ineligible for a waiver	Kristen Bellon
12.1.19	-	• Provided clarification for Solar Panels and added UCC-1 Filing section. • Removed requirement to document ownership of solar panels if equipment is already owned. • Removed requirement to provide evidence of general liability insurance on solar panels	Ellen Clayson
11.5.19	-	Added a Manufactured Home with an accessory unit is not permitted	Ellen Clayson
10.23.19	-	• Expanded Accessory Unit section to include requirements for Fannie Mae and Freddie Mac • Updated Condition and Quality Rating guidance • Added Clarification to Wells when they are Shared	Ellen Clayson
9.23.19	-	• Added Horizontal Property Regime Property Type Requirements	Ellen Clayson

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		• Removed all Government Program Guidelines and Inserted in Appropriate Lending Guide Chapter	
9.18.19	-	Clarified requirements for Community-Owned or Privately-Maintained Streets Outlining Differences Between FNMA and FHLMC	Ellen Clayson
8.30.19	-	Added link to Natural Disaster Operations Policy	Ellen Clayson
8.2.19	-	Added Table Outlining Appraisal Waiver Characteristics for both Fannie Mae and Freddie Mac.	Ellen Clayson
7.16.19	-	Second Home Year Round Usage	Erica Price
7.10.19	-	Clarified Mixed-Use Property Eligibility	Ellen Clayson
7.2.19	-	Evidence of Manufactured Home Compliance	Ellen Clayson
6.12.19	-	Added Process for 1004D as PTF Condition	Ellen Clayson
6.11.19	-	Removed Property Flipping section to Align with Agency Guidelines and Remove Cardinal Overlay.	Ellen Clayson
4.19.19	-	Additional Property Considerations: Tax Exemptions and Abatements and HERO Lien Payoffs and removed MA as ineligible	Erica Price
4.4.19	-	Eliminated requirement for field review on loan amounts > $1,000,000 and LTV/CLTV > 75% as it is no longer required by the agencies.	Stephanie Guarino
3.29.19	-	Additional clarification around Agricultural Zoned Properties	
3.20.19	-	Additional Property Consideration | Non-Homestead property	
3.15.19	-	Elimination of FHA Inspector Roster	
3.8.19	-	Property Inspection Waiver Language changed to Appraisal Waiver language and reasons appraisal required updated.	Erica Price
2.28.19	-	Ineligible property type: Newly constructed Non-Arm's Length ineligible for 2nd homes and investment properties	
2.13.19	-	Single wide manufactured homes Ineligible	
2.5.19	-	Removal of Solar Power Certification Questionnaire	Erica Price
1.21.19	-	Flood Determination	Erica Price
11.2018	-	Property Eligibility Type: Container Addition	Erica Price
9.2018	-	Addition of Property Standards	Erica Price

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		Carbon Monoxide Detectors Smoke Detectors Water Heater Strapping	
9.2018	-	Clarification of Manufactured Home requirements	
3.2018	-	Field Reviews Clarification of Ineligible Property Types, Clarification of PIW	Erica Price
1.2018	-	Personal Property, E&O, Transfers	Erica Price
10.30.17	-	Clarified recertification of value transferred forms are not permitted. Clarification on repairs noted on the purchase contract.	Erica Price
9.2017	-	Initial Approval	Erica Price

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