

# Fannie Mae will waive appraisals on some refinance loans

By [Kathleen Pender](#)

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Fannie Mae will eliminate the need for physical appraisals on certain refinance loans for single-family homes and condos worth up to \$1 million.

Thanks to a program that started Saturday, some homeowners won't have to pay or wait for an appraisal on certain refinance loans backed by Fannie Mae.

Instead of requiring an inspection by a human appraiser, Fannie will use its automated valuation model on qualifying loans. Fannie Mae already waives property inspections on about 3 percent of all loan applications that come through its automated underwriting system. Under its new "enhanced property inspection waiver" program, that could rise to 10 percent, Fannie says.

In the Bay Area, physical appraisals start around \$450 for a typical home and take about two weeks, said Aaron LaRue of Clara Lending, an online mortgage bank.

Fannie's no-appraisal offer applies only to refinance loans on single-family homes and condos worth up to \$1 million. The loan amount must be less than Fannie Mae's limits, which vary by region. In most Bay Area counties, the limit is going up to \$636,150 next year from \$625,500 this year.

Also, the loan-to-value ratio cannot exceed certain limits.

On "limited cash-out refis," where the owner takes out no cash or just enough to cover closing costs, "we will go up to 90 percent loan-to-value," said Zach Dawson, Fannie Mae's director of credit risk. He estimated that 25 percent of limited-cash-out refis could qualify for the appraisal waiver.

"On cash-out transactions, we will go up to 70 percent loan-to-value if the home is owner-occupied, or up to 60 percent if it is a second home or investment property," Dawson added.

In addition, Fannie Mae must have a physical appraisal for the same property, with the same borrower, in its Uniform Collateral Data Portal. This is a database into which lenders enter appraisals for mortgages submitted to Fannie Mae or Freddie Mac.

It's a treasure trove of electronic data gathered by human appraisers that Fannie and Freddie can use to develop automated appraisals, but it's only been around for about 4½ years. So homeowners who want to refinance a loan that is older than 4½ years, or never submitted to Fannie or Freddie, won't qualify for the waiver.

"They have collected all this data from appraisers. Now they are able to use it for their own advantage. Some appraisers aren't too happy about that. It's almost like digging your own grave," said Ryan Lundquist, a Sacramento appraiser. Lundquist says he is concerned about the trend, but "not actively freaked out."

According to the Appraisal Institute, a trade organization, the number of active U.S. appraisers has fallen by 9 percent since 2012 and is expected to continue falling, because of “retirements, fewer new people entering the appraisal profession, economic factors, government regulation, and greater use of data analysis technologies.”

As a result, appraisers in some cities, especially hot housing markets such as Seattle and Portland, can’t keep up with demand.

“Some markets have a very acute appraiser shortage. It could take a month or two months” to get an appraisal, said Matt Jones, a regulatory assistant for residential policy with the Mortgage Bankers Association. The association has been lobbying the Appraiser Qualifications Board, which sets the requirements for appraisers to obtain a state license or certification, to reduce some of its college-level education requirements.

Fannie’s new program will have “a very limited impact” on appraisers, Dawson said. “Given how busy appraisers are right now ... this is a very effective and a very responsible alternative.”

The Appraisal Institute is less concerned about Fannie Mae’s no-appraisal offer and more concerned about one that Freddie Mac will introduce in the spring.

Freddie announced in October that it will add features, including “a no-cost automated appraisal alternative,” to a tool used by lenders.

In a letter to Freddie’s regulator, the institute said that unlike Fannie Mae’s new appraisal-waiver policies, “which are limited to lower risk refinance transactions, the policy change by Freddie Mac appears to be oriented to purchase-mortgage transactions.” It said Freddie’s decision “appears to harken back to the loan production-driven days in the years leading up to the 2007-2008 financial crisis.”

Freddie Mac spokeswoman Lisa Tibbits declined to confirm whether Freddie’s new program will apply to purchase mortgages. “We will say next year,” she said.

Fannie’s new appraisal-waiver program, unlike its old one, will be open to all lenders. It will also waive the \$75 fee it had been charging lenders on no-appraisal refis beginning Jan. 1.

Fannie’s timing could have been better. Applications for refinance loans have dropped about 28 percent over the past month, as mortgage rates have risen by about one-half of a percentage point.

“We don’t know how many people will be able to take advantage (of Fannie’s new program). We know there will be a significant advantage to those who can,” said John Haring, a compliance director with Ellie Mae, a Pleasanton company that sells software to mortgage originators.

Borrowers “can avoid the appraisal cost, which they bear,” and in some cases, close sooner. In a rising-rate environment, “closing sooner probably means getting a better deal,” said Piper Beveridge, a vice president with Ellie Mae.

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