3900 Wisconsin Avenue, NW
Washington, DC 20016-2899
202 752 7000

Date: November 6, 1992

To: All Fannie Mae Lenders

Subject: Property Valuations on One- to Four-Family Properties in Areas Impacted By Hurricane Andrew

In the aftermath of Hurricane Andrew, Fannie Mae has taken a number of steps to assist lenders in addressing problems that have arisen in connection with the sale and servicing of mortgages secured by properties located in areas impacted by the hurricane. Our earlier letters to lenders concentrated on defining our policies (August 27, 1992) and responding to specific questions about mortgage eligibility criteria or servicing procedures (September 4, 1992). Fannie Mae lenders that have been working closely with residents of the South Florida area have noted that one of the concerns in the area is the viability of the mortgage market, considering the effect that the widespread devastation has had on an appraiser's ability to establish a reliable estimate of market value for properties in the affected areas. We are releasing this supplemental letter to address this concern.

Many of the appraisers that we or our lenders have talked to have indicated that they are experiencing difficulty in performing appraisals on properties located in the areas affected by Hurricane Andrew for two basic reasons -- the uncertainty of the general economic conditions in the areas and the lack of post-hurricane comparable market data (such as closed sales or contract sales) that would enable them to measure the hurricane's impact on property values.

We expect appraisers to make every effort to use all market data that is currently available in their analyses of properties in areas that were impacted by Hurricane Andrew. The appraiser's analysis must focus on the community in which the subject property is located, taking into consideration the forces that theoretically influence value -- economic conditions, governmental regulations, environmental conditions, and social trends and standards -- and how those forces come into play in that market area. These sources are often interrelated, rather than being distinct or mutually exclusive. For instance, the interaction of economic, governmental, and environmental forces is directly affecting the value of real estate in the communities impacted by

Hurricane Andrew. Many kinds of economic forces influence the value of real property. Demand (or purchasing power) is affected by economic conditions such as (but not limited to) the community's economic base, employment opportunities, employment and wage levels, price levels and patterns, industrial contraction or expansion, and the cost and availability of credit. Supply is affected by economic conditions such as (but not limited to) occupancy rates, construction costs, the availability of both vacant and improved properties, new properties under construction or in the planning stage, rent and price patterns of existing properties, etc. Political and legal actions at many levels are governmental forces that can influence the value of real property. The government provides and maintains the necessary public facilities and services; local zoning, building, and health codes and land-use regulations either support or obstruct specific land uses. Environmental influences -- such as proximity to, and sources of, employment and access to public transportation, schools, stores, recreational facilities, service establishments, places of worship, etc. -- can have a significant impact on the marketability of a property, as well as on its value. Many of these factors are at issue in the communities of South Florida that were affected by Hurricane Andrew.

We expect appraisers to analyze the general market conditions in the communities within South Florida that were impacted by Hurricane Andrew by focusing on the existence of an employment base that can support their viability. It is important to recognize that this support does not necessarily have to come from within the community itself. Since large cities like Miami usually serve as employment centers for the surrounding areas, this support is likely to come from the employment base of the associated metropolitan area. When appraising properties in communities in which residents are likely to commute to employment centers that were not affected by Hurricane Andrew, the appraiser can reasonably assume that the community will return to a level of stability similar to its pre-Hurricane Andrew condition. In such cases, the appraiser may use pre-Hurricane Andrew market data from within the subject neighborhood, as well as more current sales from comparable neighborhoods that were not affected by Hurricane Andrew, as the basis for the value conclusion for post-Hurricane Andrew appraisal reports. In the appraisal report, the appraiser should define the subject neighborhood and community, describe the degree of physical damage to both, and

provide the basis for his or her assumption that the damages from Hurricane Andrew will not significantly affect the property values in the community over the long-term.

This guidance and flexibility will help appraisers in estimating property values in many areas; however, we acknowledge that it may not be applicable in severely damaged areas because of the degree of the damage and uncertainty about the general economic base of the community. Theoretically, the appraiser cannot report a post-Hurricane Andrew estimate of market value in these areas because of the uncertainty about whether the community will recover to the point that conditions will be at least equal to those prior to the hurricane. We will continue to work with the appraisal organizations, federal and state regulatory agencies, the Mortgage Bankers Association of Florida, and other interested parties to seek a solution to this problem that will result in a reasonable approach to estimating property values in the areas that were hardest-hit by Hurricane Andrew.

We have also been asked about the eligibility of properties located in areas affected by Hurricane Andrew that may have experienced a short-term appreciation in value because of the increased demand for undamaged housing, especially since the increased value may not be sustainable. We will accept mortgages secured by properties that have experienced short-term appreciation -- if the increase in value is relatively minimal in relation to the pre-Hurricane Andrew value of the property and the appraiser's adjustments for the appreciation are supported by pending or closed comparable sales. When reviewing a post-Hurricane Andrew sale, the appraiser should focus on the contract date (or the date of the "meeting of the minds" of the parties to the transaction), rather than simply looking at the closing date.

Another question that has been raised is when existing properties should be appraised "as is" and when they should be appraised "as repaired." When there are minor conditions or needed repairs that do not currently affect the livability of the property (and it is reasonable to expect that they will not affect the structural integrity, soundness, or livability of the property in the future should they not be corrected within a reasonable period of time), the appraisal may be based on the "as is" condition of the property -- as long as the appraiser's estimate of value reflects the existence of the conditions. (If there are no physical deficiencies that

would affect the livability or structural integrity of the property, the lender does not need to require that minor repairs be completed before it delivers the mortgage to us.) When there are physical deficiencies or conditions that affect the livability, structural integrity, or soundness of the property, the appraisal must be based on the "as repaired" condition of the property. (In such cases, the repairs must be made before the mortgage is delivered to us.)

*****

We recognize that it may be some time before the general marketplace adjusts to the point that the current difficulties in estimating market values in South Florida are eliminated (or at least substantially reduced). Until then, we will make every effort to offer sound advice and to consider the needs of the local residents as we work with lenders and appraisers to reach an acceptable comfort level for property valuations in severely damaged areas. We are designating the Loan Acquisition staff in our Atlanta regional office as the national contact point for Fannie Mae lenders that have loan applications for properties in these markets. We encourage any lender to contact this group for advice so that we can work together for a solution on an individual case basis. Lenders that have specific questions or concerns about the eligibility of mortgages secured by properties located in areas affected by Hurricane Andrew should call this group (at 404-365-6233) for assistance.

Robert J. Engelstad

Robert J. Engelstad
Senior Vice President -
Mortgage and Lender Standards