



UPDATE on Market Conditions

ANALYSIS & SUPPORT

Analyzing market trends and applying market-based time adjustments is not a new concept or requirement. However, Fannie Mae has updated their Selling Guide highlighting the importance of analyzing the market, determining market trends, and applying appropriate market-based adjustments. Effective for appraisals dated on or after March 1, 2025, Fannie Mae will require lenders to ensure appraisals include sufficient market data to support the appraiser's conclusions on the market conditions.

What Does This Mean?

There will be emphasis on AMC quality control, lender review process, and underwriting to assess the appraisal's market conditions. This is to ensure appraisers have appropriately and accurately documented market conditions and adjustments and are following Fannie Mae's requirements.

From Fannie Mae's Selling Guide B4-1.3-09, Adjustments to Comparable Sales,

"The appraisal report must contain the market analysis that supports the indicated market trends, and any adjustments made for market conditions."

Once Size Does Not Fit All

From Fannie Mae's Selling Guide B4-1.3-09, Adjustments to Comparable Sales,

"A specific time adjustment to a comparable sale(s) may differ from the identified market trend since the determination of whether an adjustment is made to a comparable sale is based on market changes between the contract date of the comparable sale and the effective date of the appraisal."

Appraisers have always been required to analyze the comparable sales for any changes in market conditions between the contract date of the comparable sale and the effective date of the appraisal. These market changes are often not linear, and therefore, applying a single time adjustment to all comps may not be accurate of the market trends and lead to an appraisal that lacks credibility. Fannie Mae expects that each comparable sale is individually analyzed.

- Establish a minimum timeframe of 12 months.
- Identify the overall market trend, which may be different from the adjustments applied to individual comparable sales.
- Report on the market analysis that supports **both the overall market trend and market derived time adjustments** (may differ).

When dealing with different rates of increase or decrease for comparable sales, you would apply the specific adjustments for each property based on the observed market trends during their respective sale periods.

Fannie Mae Illustration for Differing Market Condition Adjustments:

SOURCE: <https://singlefamily.fanniemae.com/media/40241/display>

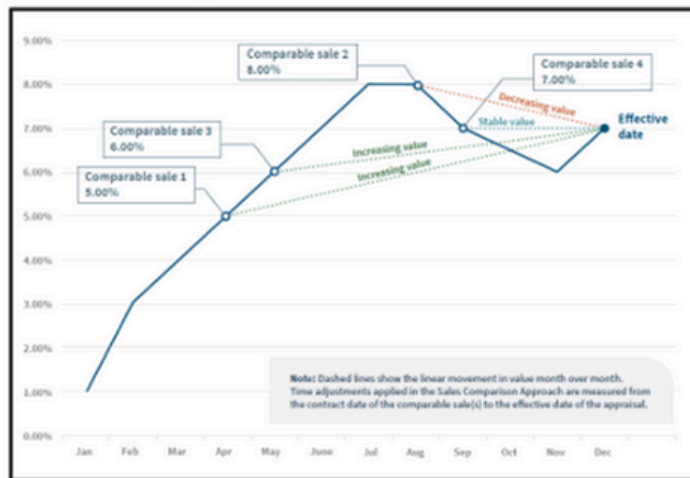
Market Condition Adjustments

The property value trend in the neighborhood section of the appraisal report has three categories: increasing, stable, and declining. The category chosen by the appraiser may be different than the market condition adjustment(s) applied to a comparable sale(s) in the Sales Comparison Approach. An adjustment made to a comparable sale(s) is based on market changes between the contract date of the comparable sale(s) and the effective date of the appraisal. Depending on when the contract date of the comparable sale(s) occurred, it is possible to have positive, negative, or no adjustments applied to different comparable sales in the same appraisal report.

To illustrate, the chart below shows a hypothetical market in which the overall value trend for a 12-month period increased at a rate of 7%; however, when examining the individual comparable sales price changes, they are not the same as the overall trend. In the illustration, the four comparable sales reflect each of three market categories (increasing, stable, and declining).

Prices have increased since the contract date for comparable sales 1 and 3. Prices have been stable since the contract date of comparable sale 4, and prices have decreased since the contract date for comparable sale 2. Therefore, the data shows a positive market condition adjustment for comparable sales 1 and 3, a negative market condition adjustment to comparable sale 2, and no market condition adjustment for comparable sale 4.

Market Condition Adjustment Illustration



Market appreciation overall in last 12 months is 7% (January through December)

- Comparable 1 = 5% increase as of contract date yields an **UPWARD** adjustment of 2%
- Comparable 2 = 8% increase as of contract date yields a **DOWNWARD** adjustment of 1%
- Comparable 3 = 6% increase as of contract date yields an **UPWARD** adjustment of 1%
- Comparable 4 = 7% increase as of contract date yields **NO** adjustment

For more information, refer to *Selling Guide* section B4-1.3-09, [Adjustments to Comparable Sales](#).

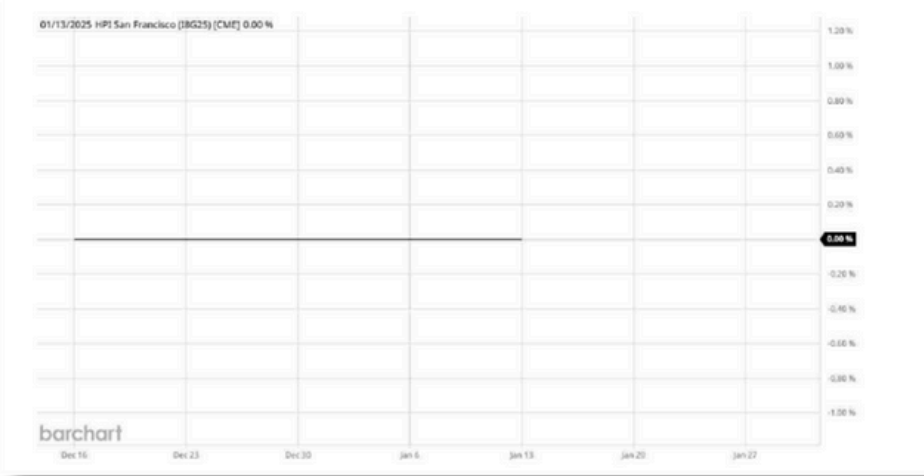
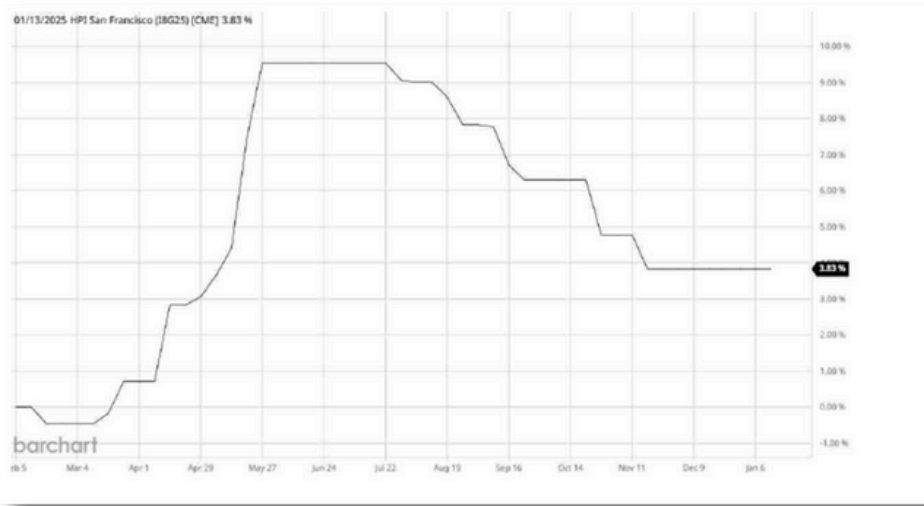
Additional month-to-month Examples

Example of Group Sales



For each month from 01-27-2024 to 01-26-2025 this chart shows the median price for both sales and listings in the subject market.

Examples of HPI month-to-month Single Sale



Fannie Mae does not require illustrations (graphs, charts, etc.) although a useful depiction to show support.

B4-1.3-09, Adjustments to Comparable Sales

“The appraisal report must, at a minimum, summarize the supporting evidence and include a description of the data sources, tool(s), and technique(s) used” ... whether time adjustments are applied or not.

What is accepted as market-based evidence?

- Property Index Trends - HPis
- Market reports from local MLS
- Historical sales data
- Statistical data
- Modeling
- Demonstrated Paired Sales

The 1004MC is not a required form by Fannie Mae, although most of our clients require this form. As the 1004MC form exhibits 3 differing time segments within a 12-month period, an appraiser must provide additional data that is representative of the market changes.

Sources:

<https://selling-guide.fanniemae.com/sel/b4-1.3-09/adjustments-comparable-sales#P3891>

<https://singlefamily.fanniemae.com/media/40241/display>

<https://guide.freddiemac.com/app/guide/bulletin/2024-15>

Trend Validation Through Benchmarking

This technique is beneficial when data is limited and/or when verifying the accuracy and reliability of trends.

1. Trend in [specific] market area.
2. A reliable benchmark for comparison.

Assess whether the market trend aligns with the benchmark. If the trend matches or is consistent with the benchmark, it is validated as credible. If discrepancies exist, investigate further to determine if the trend is an anomaly or indicative of broader changes.

Example of Benchmarking



Create a grid or table to display adjustments.

Example:

COMPARABLE	SALE PRICE	SALE DATE	TIME ADJ. RATE	MONTHS	ADJUSTMENT	ADJ. PRICE
Comp 1	\$200,000	8 months ago	+0.5% / month	8	+\$8,000	\$208,000
Comp 2	\$210,000	10 months ago	+0.5% / month	10	+\$10,500	\$220,500

Create a graph to display adjustments.

Example:

