

Residential Appraisal Report Basics

This guide breaks down the key components of the Uniform Residential Appraisal Report (URAR/1004 form), reviews appraisal quality, and explains how automated processes interact with appraisal data.

Residential Appraisal Report Basics

A Comprehensive Guide by The Housing Assistant



Introduction

An appraisal evaluates the market value of a property and is essential to the mortgage process. This guide breaks down the key components of the Uniform Residential Appraisal Report (URAR/1004 form), how to review appraisal quality, and how automated processes interact with appraisal data.

Subject Information

This section includes the property address, legal description, borrower and owner's names, and the purpose of the appraisal (e.g., purchase, refinance).

Contract Section

Shows the contract price, any seller concessions, and whether the appraiser reviewed the contract. It's important to confirm the sales price matches the contract.

Neighborhood Analysis

Gives insight into the surrounding area — including market trends, property values, and neighborhood characteristics.

Site Details

Outlines land size, zoning classification, and utilities. Zoning compliance is key to future property use.

Improvements Description

Details of the subject property's features such as year built, design, number of bedrooms and bathrooms, materials used, and condition.

Sales Comparison Approach

This is the heart of the appraisal. It compares the subject to similar recently sold homes (comparables). Adjustments are made for size, location, amenities, etc.

Cost Approach (if included)

Estimates the cost to rebuild the property today, minus depreciation. Usually included in new construction or special-use properties.

Reconciliation & Final Value

The appraiser summarizes their conclusion and states the final value estimate, which is most often based on the Sales Comparison Approach.

Items to Review or Double Check

- Borrower name and subject address match the loan file
- Contract price aligns with the final loan documents
- Comparables are sold recently (typically within 6 months) and within 1 mile of the subject
- Condition ratings (C1–C6) and Quality ratings (Q1–Q6) are reasonable and supported

Understanding Condition and Quality Ratings

Condition (C1–C6) and Quality (Q1–Q6) ratings are standardized by Fannie Mae and Freddie Mac.

Condition Ratings:

- C1: Brand-new construction, never occupied.
- C2: Recently renovated with like-new finishes.
- C3: Well-maintained with minimal signs of wear.
- C4: Average condition with some wear, no major issues.
- C5: Significant deferred maintenance; not fully functional.
- C6: Major deficiencies or safety issues.

Quality Ratings:

- Q1: High-end, custom design, top materials.
- Q2: Upgraded construction with good-quality materials.
- Q3: Standard builder-grade quality and materials.
- Q4: Economy construction; less durable materials.
- Q5: Older style, limited updates or modern systems.
- Q6: Substandard quality or outdated, inferior systems.

Logical Adjustments and Tolerance

Appraisers adjust comparable sales to align them with the subject property. Typical tolerances:

- Net Adjustments (total adjustments minus concessions): should not exceed 15%–25% of the sale price.
- Gross Adjustments (total of absolute value of all adjustments): should not exceed 25%–30%.

Examples of logical adjustments include:

- Square footage differences
- Lot size or location
- Upgrades or additions (e.g., pool, finished basement)
- Bedroom/bathroom count

What Is an Appraisal Waiver?

An appraisal waiver allows the lender to skip the traditional appraisal process based on the borrower's risk profile and property characteristics. Eligibility depends on:

- Desktop Underwriter (DU) or Loan Product Advisor (LPA) approval
- Property address in database with reliable recent valuation
- Strong credit, low LTV, and conventional loan eligibility

Waivers are typically not available for cash-out, construction, or investment properties.

UCDP: Uniform Collateral Data Portal

UCDP is a platform where lenders upload appraisal reports for conventional loans delivered to Fannie Mae or Freddie Mac. It validates the format, checks for completeness, and generates a Submission Summary Report (SSR).

Submission Summary Report (SSR) & Scoring

The SSR provides a risk score and flags concerns.

Risk Score Range (typically 1.0 to 5.0):

- 1.0–2.5: Low risk — Generally acceptable.
- 2.6–3.5: Moderate risk — Review recommended.
- 3.6–5.0: High risk — Escalated review likely required.

It also checks for:

- Property eligibility
- Data accuracy
- Consistency between comparables and valuation

VA LAPP & SAR Explained

The VA uses the Lender Appraisal Processing Program (LAPP) to expedite loan reviews. Lenders who participate in LAPP assign a staff Appraiser Reviewer (SAR) to review VA appraisals and issue the Notice of Value (NOV). This process reduces wait times and gives lenders more control.

Key Roles:

- LAPP: VA's program allowing authorized lenders to manage appraisal review.
- SAR: (Staff Appraisal Reviewer): A trained underwriter who reviews the VA appraisal, identifies discrepancies, and issues the NOV.

SARs must complete VA training and be approved to issue binding VA property values.

Minimum Requirements to Perform an Appraisal

To perform a mortgage-related appraisal, the appraiser must:

- Be licensed or certified in the state where the property is located
- Follow USPAP (Uniform Standards of Professional Appraisal Practice)
- Be independent from the transaction (no financial interest)
- Be on the lender's approved panel or on the GSE or government agency roster (if applicable)

Special Appraisal Rules by Loan Type

FHA Loans

- Must be completed by an appraiser on the FHA Roster
- Appraiser must inspect the property and ensure it meets HUD's minimum property standards
- Repairs may be required before closing

VA Loans

- VA appraisers must be on the VA's panel
- NOV issued by the SAR includes appraised value and required repairs
- Special attention to MPRs (Minimum Property Requirements)

USDA Loans

- Appraisal must meet Fannie Mae guidelines
- USDA may impose stricter review if loan has guarantees
- Must confirm rural eligibility and compliance with safety standards