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Viewpoint: Home Appraisal's Communication Gap

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In response to the real estate markets' troubles, entities like Fannie Mae and Freddie Mac have adopted stricter residential appraisal guidelines that require greater detail.

With more focus being placed on the quality of appraisals and rapidly changing federal compliance regulations, appraisal management companies are being forced not only to keep up with and comply with the latest regulations, but to adhere to the special instructions requested by individual lending institutions, leaving them with a lengthy to-do list per appraisal.

One example: Fannie Mae and Freddie Mac now require interior photographs of (at a minimum) the kitchen, all bathrooms and the main living areas. In addition, Fannie Mae requires that appraisers "include photographs of any value-influencing items." This includes items that would add value as well as items that would detract.

Many lending institutions have been asking for interior photos for years - photographs of every room, above and below grade. A good appraiser will want to include as much evidence of property value as possible for the lender, and pictures do just that.

The clients at my appraisal firm often have vivid lists of special instructions.

High-quality appraisal valuations can prevent financial losses. But while it is important for appraisers to anticipate and respond to a lender's special instructions, it is also important for lenders and other clients to clearly list and explain any special instructions from the moment the appraisal is ordered.

When appraisers accept work orders with special instructions, they must incorporate the instructions into their scope of work. If the instructions are given in detail from the beginning, the appraiser is more likely to deliver an appraisal that meets the standards and requests of the lender.

The increase in special instructions for appraisals stems from the radical changes in the real estate industry in direct response to the collapse of the real estate market.

Valuation details have become a focal point in recent years because most reputable lenders are hypersensitive to preventing the fraud and "overvaluations" that contributed to the collapse. Good appraisers understand and appreciate this concern, and are happy to accept an appraisal order with special instructions that are reasonable.

As a senior corporate appraiser in my firm's quality and compliance division, I consistently see things like market conditions, zoning, seller's concessions and prevalence of foreclosure activities in the subject area garnering special attention from underwriters and lenders.

However, when lenders submit meticulous lists of things they expect from comparables, it sometimes becomes difficult for the appraiser to meet all these demands.

Demands that generally mirror Fannie Mae guidelines are easily met in some markets. In other markets those guidelines cannot be met. When a guideline cannot be met, it's the appraiser's responsibility to explain to the reader of the report the reasons for not meeting a specific guideline.

Too often appraisers claim they're surprised by special instructions after they have completed their analysis and filed their report. This should never happen!

While it is the appraiser's job to identify the intended use and the intended user and all the special instructions before they accept an assignment, the lender must be as specific in its instruction as it would like the report to be.

By knowing what the lender wants up front, and paying attention to the detail required and the complexity of the appraisal problem, the appraiser can structure a fee schedule that allows them to respond to every one of the lender's special instructions in a workmanlike and professional manner.

The appraiser's response to the requirements of the special instructions can make or break a lender's loan. It is imperative for lenders to be clear and extremely specific with special instructions. Without a understanding of special instructions, guided by the lender's detailed direction, an appraiser might break a loan that otherwise would have been fine had there been clear direction from the beginning.

My colleagues and I feel strongly that it is the appraiser's responsibility to provide whatever they agreed to upon engagement and that it is the lender's job to communicate their needs in advance of the assignment. This way everyone gets what they need and everyone is working toward the same goal of "a reasonable and supported opinion of value."

Meetings of the minds at the onset of the appraisal process will simplify the process and should enable the lender to streamline their underwriting process.

Once we all accept that the special instructions are an integral part of an appraiser's scope of work in today's real estate market, there will be fewer revision requests and everyone will benefit.

When providing special instructions for residential appraisers, you can be certain that attention to details will result in faster turn times and improved performance.

