

What to Look for in an Appraisal

By George Demopulos

AS LOAN ORIGINATORS WELL KNOW, A VITAL part of the application process relies upon a quality and accurate appraisal. Today, due to the current state of the economy, the decreasing value of property in many areas, and the record number of foreclosures resulting in the abundant REO properties, it has become more and more challenging to receive a high quality appraisal report.

If we add to this the necessary “appraiser independence” policy established by the former Home Valuation Code of Conduct, new FHA guidelines as well as the addition of appraisal management companies into the mix, we get a very complex and unique market in which to secure a true and accurate high-quality real estate valuation.

It is imperative loan origination clients receive a high-quality appraisal product with the most objective valuations possible for their continued success. If they do not receive a high-quality appraisal the end result could be much like their competitors; financial loss and in the most extreme cases a lender going out of business.

In my years in the business I have found the most important issues to address when producing a high-quality and objective appraisal report are the following:

- Location, Location and Location: We have heard this forever and it still rings true.

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An appraiser should never pass up a comparable property that is close to the subject to go outside the immediate neighborhood unless there are absolutely no verifiable comparables in the area to select from. As an underwriter, this should certainly be a closely reviewed section of the appraisal as far as accuracy goes.

- How about consistency? Everything on page one should also be on the sales grid. If there are fences, porches, outbuildings, etc., they should all be placed on the sales grid. Without consistency, the appraisal report cannot accurately reflect the property, and therefore may negatively affect the quality of the appraisal.

- Neighborhood market conditions and the 1004MC (Market Conditions Addendum): These should be consistent with the neighborhood section of an appraisal report. Inconsistencies in this area of the report will certainly raise a red flag to any mortgage underwriter.

- Vacant Properties: It is imperative that detailed comments be present in the report about whether or not the utilities are in working order. It is also always advisable to test the lights and water, along with taking pictures to document the state of the utilities.

- Bracketing, as defined in the Dictionary of Real Estate Appraisal, Fourth Edition, Appraisal Institute, is “a process in which the an appraiser determines a probable range of values for a property by applying qualitative techniques of comparative analysis to a group of comparable sales. The array of comparable sales may be divided into two groups—those superior to the sub-

ject and those inferior to the subject. The adjusted sales prices reflected by these two groups limit the probable range of value for the subject and identify a bracket in which the final value opinion will fall.”

It is advisable to bracket sales using both dwelling size and sales price whenever possible. If bracketing is not possible, the appraiser should explain why. This is a common error that is overlooked by many appraisers. To uphold the quality of the appraisal, detailed notes should be included in the appraisal report as to why bracketing was not done.

- Legal Site: If your site is anything but illegal, appraisers should comment on how this affects marketability and whether or not the property may be rebuilt.

- Listing History: A prior 12-month listing history; including source (e.g., MLS), original sales price, current sales price and total days on market should also be included on the appraisal report.

- The appraiser’s sketch must match the reviewer or underwriter’s room count.

- Subject Location: It is always a good idea for the appraiser to map the subject on a website like Bing Maps or Google Maps to see what is around the property in a bird’s eye view. This is what a reviewer or underwriter will do in order to see if there are any adverse conditions surrounding the subject. If there are any such conditions, the appraiser will need to provide detailed comments regarding their effect on the property.

- Comments: It is good practice for appraisers to review all comments before com-

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pleting the report. As an underwriter, the more information, the better. Any unclear comments will only slow down the underwriting process.

Most high-quality AMCs have some standard, prepared comments that are used in reports, but these should always be re-

viewed and refined to ensure that they are relevant and specific to the current report. Appraisal reviewers and internal underwriters should look out for generic, undetailed comments, as they bring down the quality of the report.

Comments that are unique to the subject and that talk about the condition, amenities and how it fits into the neighborhood

are extremely helpful in assessing the value of the property. Specific information about the neighborhood where the subject is located, rather than generalities, is much more helpful to an underwriter. It gives the reader of the report a clear understanding of the subject and the neighborhood.

• **Key Additional Guidelines for a High-Quality FHA Appraisal:** There are several

comments and concerns that are overlooked on appraisal reports that are necessary for a well-written FHA report. The following are some of the more important FHA protocol issues:

• **Intended User:** The intended user is the lender/client and HUD/FHA.

• **HUD Standards:** The subject property conforms to the HUD definition as stated in "Minimum Property Standards for Housing," 1994 Edition.

• **Utilities:** All utilities were in operation at time of inspection. This included heat, electric, plumbing and air conditioning.

• **Attic and Basement:** The attic and basement were inspected by sight and a photo taken. No leaks, settlement or pest infestation was observed. This complies with HUD/FHA standards.

• **Individual Water Supply and Sewage Systems:** Identify the type of utilities in the site section of the appraisal report. When water and sewer are private, well and septic testing is to be governed by state or local requirements. However, the appraiser must note any readily observable deficiencies regarding the well or septic system. The appraiser is also required to report on the availability of connection to public and/or community water/sewer systems. The lender is responsible for the determination of the feasibility for requiring connection.

• **HUD Septic Distances:** The subject property meets HUD/FHA minimum distance requirements between private wells and sources of pollution for existing properties. The septic system is at least 50 feet from the well, the septic drain field is at least 100 feet from the well and the well is located at least 10 feet from the property line.

• **Lead Based Paint Hazards:** For any home built prior to 1978, check for evidence of defective paint surfaces, including peeling, scaling or chipping paint. For all FHA-insured properties, correction is required to all defective paint surfaces in or on structures and/or property improvements built before Jan. 1, 1978 in accordance with 24 CFR Part 35. Provide a detailed description and identify the exact location of any deficiency under "physical deficiencies" affecting livability.

• **Sketch:** This should include a building sketch showing the gross living area above grade, including all exterior dimensions of the house. Include pools, patios, porches, garages, breezeways and other offsets. State "covered" or "uncovered" to indicate a roof or no roof (such as over a patio).

• **Comparable Photos:** Photos depicting the front view of each comparable sale utilized must be those taken by the appraiser. The photos taken by the appraiser are considered evidence of compliance with the scope of work of having inspected each comparable sale from the street. Use of MLS photos to exhibit comparable condition at the time of sale is acceptable. ♦

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