

Appraisal Information for Loan Officers

PREPARING YOUR BORROWER FOR AN APPRAISAL

- Appointment

Advise your borrower that the appraiser will contact them to schedule an appointment to visit their property and refrain from using the word ‘inspection’. Explain that the appraiser will need access to all rooms and areas including structures and that he will take photographs, and draw a floorplan.

You may also refer your borrower to our Homeowners page:

<https://www.appraisalteam.net/homeowners.html> where we have an FAQ/guide.

Ask the borrower if there is any **construction or work-in-progress** and ensure that it is within acceptable stage to your lenders’ underwriter guidelines. In this case, the appraisal will be made “Subject to completion per plans and specification on the basis of a hypothetical condition that the improvements have been completed”.

ADDITIONS/PERMITS: If the property has ‘permitted’ additions, inform the borrower that they may need to present the appraiser copies of the permits if requested. A photo of the permit before going to the site may also be requested. The appraiser will attempt to obtain permit records online. However, if not available, the typical scope of work. In addition, the pre-determined fee does not include the appraiser going to the building department himself to physically obtain permits nor to arrange with the building department to pay for them. If the Property has had an ‘unpermitted’ addition (no permits), there is no documentation required. If permits are “discovered” later, a new appraisal may be required, for a full fee.

- Payment

a. AMC Pay: Advise your borrower that we will not collect payment from them.

b. BORROWER Pay: Advise your borrower that we will expect payment upon arrival cash, money order, or online payment (no personal check).

To avoid payment issues, always confirm the appraisal fee, as well as the methods of payment, with your borrower

- Appraisal Reports

The borrower may want to know the value of the property or may want the appraiser to give them a copy of the report directly. These are requests that the appraiser will redirect to you. **Please advise your borrower that if they have any questions about obtaining the report or any concerns about it, that you are their point of contact.**

Many borrowers consider themselves to be the client because they pay for the appraisal. Please explain to them that it is you, (the lender/broker) who hires the appraiser and that you are our client even though the borrower may pay for the appraisal. The appraiser’s contractual obligation is to you; not the borrower.

APPRAISAL BASICS

- USPAP

USPAP stands for Uniform Standards of Professional Appraisal Practice. USPAP establishes the standards and guidelines for real estate, personal property and business appraisals. It also defines the ethical conduct to which all members of the profession are held. All real estate appraisers must comply with USPAP regulations. The intent of these Standards and Rules is to promote and maintain a high level of public trust in professional appraisal practices. The purpose of these Standards and Rules is to establish requirements for the development and communication of credible appraisal reports. More information is available at the Appraisal Foundation's website.

- **Market Value**

Stated in simple terms, an appraisal is ordered is to estimate the market value of the subject property. The definition of market value according to USPAP is the most probable price for which a property should bring in a competitive and open market under all conditions requisite to a fair sale. The phrase 'conditions requisite to a fair sale' is commonly referred to as an "arm's-length transaction". There are five factors to an "arm's-length transaction", and they are:

- 1.) Buyer and seller are typically motivated
- 2.) Both parties are well informed and acting in what they consider their best interests
- 3.) A reasonable time for exposure of the property is allowed on the open market
- 4.) Payment is made in U.S. dollars or equivalent terms.
- 5.) The price represents the normal considerations for the property without any special or creative financing or any sales concessions by anyone involved in the transaction.

Although the process to determine market value is very involved and detailed, it is important to remember that the final conclusion of market value arrived at by an appraiser is still only an 'estimate' or an 'opinion' of value. The true measure of property value is what a buyer paid for it.

- **The Three Approaches to Value**

There are three distinct approaches or methods used in determining property value by appraisers. They are the Sales Comparison Approach, the Cost Approach, and the Income Capitalization Approach.

The Sales Comparison Approach: The basic principle of this approach is the price a buyer is willing to pay for a similar (or comparable/comp property). This is known as the principle of substitution. In the report, positive or negative adjustments are made to the comps, to arrive to their Adjusted Sales Prices. From this range the appraiser will then determine the indicated value of the subject, which may not be their average. The amount of adjustment for any particular feature is not simply the cost to construct or add that feature, but what a buyer would be willing to pay for it, typically a lesser amount, or sometimes none. When determining the market value for single family properties, most weight is given to the Sales Comparison Approach, as it best reflects the attitudes and actions of informed, knowledgeable buyers and sellers in the real estate market.

The Cost Approach: In this approach the appraiser estimates the value of the improvements in terms of its' reproduction or replacement cost, and lot value. Typically, this approach is applicable with brand new property, and unusual or non-conforming properties. For single family residences, the Cost Approach is often included only because it is required by most clients, even though it's given no or little weight in the final reconciliation. More information is available in the Marshall & Swift® guide.

The Income Capitalization Approach: This approach is used for income-producing, multi-family property, and it's calculated based on a property's net income. For single family residences, the Income Approach to value is not considered a relevant approach because the majority of homes are not intended for investment purposes even if bought by someone as such.

- **Sales Comparison Approach: Comparable Sales Selection**

Selection of the most similar comparable properties among recent sales is critical. The most common sources are the Multiple Listing Service (MLS) and County Records. When selecting comparables, the main criteria are:

- 1) Location or Distance: Neighborhood, market area, subdivision, district, natural or man-made barriers, within an acceptable distance to the subject.
- 2) Sales Date: The closer the comparables' sales date, the more support it will lend to the final estimate of value.
- 3) Property Design: A similar to the subject property, will yield more credible support as a good comparable property.
- 4) Year Built: As close to the age of the subject as possible in order to ensure that similar functionality, construction methods, and materials were used.
- 5) GLA (Gross Living Area) or what is generally referred to as Square Footage.
- 6) Condition: The closer to the subject comparable condition, the better it can support value as truly comparable.
- 7) Lot Size: More often has influence in Suburban or Rural appraisals or on Subdividable urban lots, and/or when there is more inventory of listings.

Other factors can influence value may include: view, floorplan, positive or negative external influences such as proximity to shopping, noise, odors, and sales terms for example. The appraiser has leeway to extend these parameters if activity in the subject's market area is minimal, and there are limited comparable sales.

Every parcel of real estate is considered unique even with properties of the same design and construction, in the same subdivision. This creates a significant amount of subjectivity where it's not uncommon for appraisal opinions to vary on the same property.

Reconciling Value: When reconciling the indicated values from the adjusted comparable sales used in the Sales Comparison Approach, the appraiser must produce a single value estimate. This is where experience comes to play as there is no formula for it. A credible, supported, final-value estimate is based on appraiser's judgment and analysis.

- **The Appraisal Process**

Research: After collecting all pertinent order data, and making an appointment, the appraiser will research the subject, prior sales, public records, and a pool of good possible comparable sales and 'prepare' the form. Finally, he will map the properties to optimize his route.

On site: The appraiser will visit the subject property to gather property characteristics, take pictures of the interior and exterior, and sketch the floorplan. Advise the borrower that ALL rooms and structures must be full accessible. At this time the appraiser will also take pictures of the comparable sales and observe the neighborhood.

Report Submission: When the report is completed, usually within 1 or 2 business days of inspection, the appraiser will upload it for the AMC or lender QA-review, utilizing prearranged, online submission platforms.

Revisions: Most loan officers are familiar with the term 'conditions'. The lenders conditions become the appraisers revision requests after a report has been reviewed by the lender's underwriting department. Conditions may include errors, incomplete information, picture corrections, additions due to lender's underwriting guidelines, or information that needs to be clarified. The lender is expected to clearly itemize the request in appraisal terms, for appraisal issues, and not simply attach the loan underwriting software coded messages referencing all general conditions that may not be about the appraisal. Given that the appraiser has a clear understanding of the revision requests, he will correct or satisfy them, if possible/reasonable/compliant, within 24 hours.

- Order Form

The appraisal order form should include the following:

- 1) Property Address
- 2) Borrower Contact: Telephone numbers and emails for the borrowers. We contact them 4 times within the first 3 days, and then once again two days later.
- 3) Type of Form/Appraisal order: 1004, 1073, 2055, or Interior/Exterior drive-by, etc.
- 4) Type of Loan: Purchase, Refinance, Equity etc. (If a Purchase, always provide the sales contract.)