



IT'S ALL THE APPRAISER'S FAULT...

...or is it?

THIS appraiser has many faults, but the R.E. market isn't one of them!

I present you with some thoughts on R.E. Appraising as I perceive it after 20+ years of experience, appraising mostly for "mortgage lending purposes". Please don't take these thoughts as any kind of "gospel" or "legal advice" since I'm not qualified to provide either. They're just my musings on some of the considerations we, as appraisers, have to contend with that seem to often lead to misunderstandings when interacting with loan officers and/or underwriters.

For your APPRAISAL needs, I invite you to send me your requests, either by fax or by e-mail:

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NEED A COMPS CHECK?

The "comps" part is short for "comparable" - NOT "complimentary" as in the entertainment and arts industries. My husband and I just saw a theatre play - our tickets were "comped" due to my husband's associated art exhibit. The tickets were free, in other words.

"Comparable" is different. It involves fact finding and judgement - amongst other things. "If I need an apple but the market only has oranges, would I buy an orange instead? What would make me buy an orange instead? Would I go to another market just so I can get my hands on an apple?" Maybe the first market has this one vendor selling huge specialty apples - would I buy one of those when all I really need is a small Pippin apple, or would I actually just go to the other market?

You get the idea, right? You're the one who wants the apple and you want me to find it AND buy it for you, for free. Fair? Mmmmmm.... If you like the apple and decide to use it in your recipe you'll pay me back if I give you the apple - but only if it's worm- and pestfree.

So much for applesauce!

The gist is: no matter how you slice it, a "comps check" IS an appraisal. It's the scope of work, the intended use and manner of reporting that are different from what is commonly referred to as an appraisal. Prudence dictates that any appraiser who does these "*free appraisals*" disclose exactly what kind of research s/he did, what parameters were used to determine "comps" (as opposed to "sales") and include a STRONG statement regarding the limited reliability of any value (-range) indicated, and that the appraisal is intended for use solely by you as an aid in a preliminary mortgage qualifying process (or something similar) and that a full standard appraisal for lending purposes may yield a different result. There is more to it than that - but those are very important factors. If you DO get a "comps check", make sure the appraiser addresses these points - it will save YOU and the appraiser from potential headaches (or worse) down the line.

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NEED \$2,000,000.- TO MAKE THE DEAL FLY?

That's nice!

No - don't run away. It IS interesting. I need \$2,000.- to put up a fence in my sideyard. Looking at my resources I don't have that \$2,000.-. I have \$1,500.-. For \$1,500.- I can put up the standard dog-ear planks instead of the full privacy planks, done right. If I really, really want/need the fence right now, I'll go with the dog-ears. The \$2,000.- is just not there, no matter how I juggle things. Ah, but guess what? I found a guy who'll put up the full privacy fence for \$1,500.-!! It will LOOK just LIKE the \$2,000.- fence - until the first storms hit. Unfortunately, his installation was shoddy and the planks are coming loose. Later one or two of the support posts tip over. OK, I don't own the place anymore - it's now somebody else's problem, so who cares? Well, I guess I SHOULD care - 'cause I hired the guy to put up that fence that made it LOOK like \$2,000.- instead of just \$1,500.-, and it really was a selling point with the new owners. Now they don't trust me or "the guy" - "the guy" can't be found and they're warning everybody to not buy a home from me.

HUH?

Point being: it's not that hard to "make the numbers work" in an appraisal report - to make the \$1,500.- fence LOOK LIKE a \$2,000.- fence. But - it's still a \$1,500.- fence.

"Numbers Hitters" have been a thorn in the side of "Honest Appraisers" for years.

Licensing has not changed that. A mortgage broker who regularly employs "N.H.'s" can only hope that all "his/her borrowers" stay on the straight-and-narrow, avoiding the dreaded REO. The appraiser ("N.H.") bites it first. And again. And again. The reviews reveal "inflated values". The mortgage broker was "ABC" on all these. Ah, but wait!, that same appraiser has done a lot of work for "XYZ", as well - let's take a look. Sure enough - several "XYZ" brokered deals are teetering, too. Pretend you are "XYZ" - do you close your doors and re-invent yourself as "ZYX", etc., until you run out of permutations? Then maybe the "Numbers Hitters" are for you.

If, on the other hand, you plan on staying in business even through the stormier days, an "Honest Appraiser" is your only choice.

You win some, you lose some. Some deals may well be lost over a property value issue - IF you employ the "H.A.". The "H.A." will listen and be open to reasonable inquiries by you. ONLY by you. You are the Client - and the intended user. If the issue can't be resolved - an appraisal is, after all, an opinion of value - my suggestion is to get a second opinion from another "H.A.". Less aggravation, less time wasted, small price to pay for peace of mind. An Honest Mortgage Broker who keeps his/her borrower well informed should not have a problem with this approach.

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NEED \$2,000,000.- TO MAKE THE DEAL FLY? part deux.

That's called "lender pressure". We ("H.A.") are supposed/encouraged to report this. In reality, we rarely do - it has to be an extreme case. BUT - WE get in trouble if we appraise "to a predetermined value". No request for appraisal should contain reference to value *needed* or *expected*, nor to loan amounts and LTV's that *have to be met*.

Do I refuse assignments that contain this info? No. Maybe I should. My take on it is: THAT'S NICE! Then I inform the client that I'll appraise the property regardless of this info - if the client is "worried" about the value, the time to cancel the request is NOW. If I tell the client I think the value may be a problem, I've already given an appraisal AND taken a predetermined value into consideration - not good! I won't bend on that. The property gets my fair and unbiased appraisal - and, guess what? Sometimes my opinion of value is higher, sometimes it is lower - sometimes even "right on". Do I worry? A little - whenever it happens to be "right on"!

On my wish list:

That the appraisal could be ordered BEFORE determining the loan amount. Less hassles all the way 'round.

Now - that WOULD BE nice!

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