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Some appraisal variations - And pushing on the boundaries - by Bill Pastuszek

March 10, 2017 - Appraisal & Consulting

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What is the most inefficient part of the appraisal process? Three out of five appraisers would probably say the inspection. Why? There are many moving parts that need to mesh. A time that is convenient for at least two, and often more, people must be found. The inspection itself takes a considerable amount of the appraiser's time; time spent in travel and on-site. And then there is the inspection itself.

Most appraisers will say that the inspection is the most important part of the process but then complain that they are being used as home inspectors and not appraisers. Good point. Appraisers are trained to be experts in valuation; home inspectors, contractors, brokers, and engineers are not. Appraisers may have expertise in construction and housing components, but that's not what they are being paid to do.

Lenders have always sought better - read, quicker and cheaper - solutions to support collateral valuation. The infamous 704 form is a drive-by form that was used (and misused) for many years. More recently, the 2055 forms were widely utilized. The secondary market, since the housing collapse, has primarily relied on "full" appraisals, i.e., complete interior and exterior inspections and the development of two, if not three, valuation approaches.

Although appraisers may not admit it, more efficient appraisal products would suit many who agree with lenders that, for many transactions, a full appraisal is overkill. Appraisers feel somewhat hamstrung by their perception of restrictions on what they may and may not do when performing appraisals. This perception is due to the continued imposition of secondary market requirements on the appraisal process. Many appraisers believe that anything short of a full appraisal will result in a USPAP violation.

Ah, USPAP. USPAP recognizes the importance of a physical inspection of real estate. USPAP also provides strong guidance regarding the nature of such inspections and the resources an appraiser can use. An appraiser may personally conduct a physical inspection of the subject, but can also rely on an inspection conducted by another individual on the appraiser's behalf. A credible result must occur and the person conducting the actual inspection must be identified in the report. The appraiser also has the duty to act appropriately when "unacceptable assignment conditions" result. The inspection is one area where these unacceptable conditions can occur.

The appraiser shortage has caused proactively thinking software vendors and appraisal management companies (AMCs) to fashion solutions to streamline the appraisal process. Home equity lenders who often have a pre-existing relationship with a borrower need a better way of ascertaining the value of real estate in low LTV situations. Mortgage loan servicers have also voiced the need for more cost-effective products. Over the recent past there has been a movement away from BPOs and towards more reliable valuations. This trend is also true among banks, which need to meet the compliance requirement of their risk control policies.

Hybrid, alternative valuation products are appropriate under certain conditions. The best case is that lender and appraiser work together to determine the suitability of a particular reporting product on a case-by-case basis.

When an outside inspector (not the appraiser) is used, the inspector–who has some experience and competence in understanding how to inspect a house, and how to understand what is seen in an inspection–conducts a full inspection of the property. The inspector prepares a report for the appraiser, which contains at least photographs, a narrative description, and a floor plan of the subject.

The appraiser then uses the inspection report as the basis for the valuation. The appraiser and the inspector do not interact in terms of value. Further contact may result if the appraiser has questions about the inspection. The appraiser is able to arrive at an independent valuation based on information provided by the inspector. Relying on a third party who was actually inside the property provides both lender and appraiser with a degree of confidence regarding the marketability of a property, and may speed the appraisal process up considerably.

Market analysis and comparable analysis is left for the appraiser to research, develop, and apply to the appraisal process. In addition to the subject, comparables need to be inspected to determine locational influences and physical factors.

By combining the expertise of the “inspector” and the “appraiser,” the process moves more quickly and more efficiently. In this system, appraisers can utilize their unique talents and concentrate on valuation. These web-based systems (at least those with which I am familiar) allow the appraiser to recommend an appraiser’s inspection for particularly complex situations.

While these products target the residential appraisal process, there is movement in the commercial area as well. Lenders, under certain low loan/low risk circumstances, can rely on evaluations (a defined term in FIRREA’s Interagency Guidelines), which fall somewhere between restricted and appraisal reports. While evaluations don’t require credentialed appraisers, many banks would prefer the credential on the report. Conflicts arise between the lender’s needs – a low cost/low detail product – and the appraiser’s professional obligations. Companies working on solutions but commercial appraisal is much less monolithic than residential, given the variety of property types and diversity of practice from market to market.

Expediting the appraisal process that produces credible assignment results provides lenders with realistic options. Hybrid products will evolve and will, if not misused and dumbed down, represent a legitimate option for the lending community, and provide appraisers with options in how to conduct their practice. In any case, appraisers and clients will be able to have solutions for their respective frustrations with appraisal process.

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