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## **The state of valuation - How changes affect the consumer - by Craig Morley**

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Since 2005, there have been dramatic changes in real estate valuation starting with Government Sponsored Entities (GSE) introducing a new report form in 2005. In the wake of the “Great Recession” starting in 2007 the “Home Valuation Code of Conduct” was introduced in 2008 which was replaced with the Dodd Frank Act. Fannie Mae realized that there were problems with tracking appraisal data. Fannie Mae initiated modification to in the reporting and data collection of appraisals. With the lack of historic data, Fannie Mae introduced of the Uniform Data Set (UAD) which started the mass collection of residential housing data broad residential valuation in the realm of the so called “Big Data.”

Fannie Mae and Freddie Mac are undertaking an imitative to modernize the appraisal and valuation processes. Several recent efforts to streamline the lending process include the use of “waiver” where in some cases where the home and borrower qualify, a loan can be sold to Fannie or Freddie Mac without the use of an appraisal. In an effort to reduce the cost of appraisals “hybrid” or “bifurcated” appraisals are being used where a third-party inspection looks at the property that is the subject of the appraisal collects data and sends that information to the appraiser for analysis and the development of an opinion of market value. The concept is that allocation of tasks associated with collection, analyzing and developing value conclusions will be more efficient, take less time and cost the consumer less. It seems likely that Fannie Mae will incorporate the “bifurcated” appraisal as part of its modernization which is expected to be completed within the next two years.

How do these changes affect the consumer?

Borrowers are required to pay for an appraisal, but they have no say on who can perform the appraisal. The lending institution has the responsibility in the selection of an appraiser. In fact, if a borrower engages and appraiser to perform the appraisal, it will not be used by the lender and it is very likely that the appraiser will not be allowed to re-appraise the property for the lender.

Introduction of the UAD reporting has made it very difficult for the consumer to read and understand the appraisal due coding that works very well for Fannie Mae, but rather confusing for the consumer

Fannie Mae and Freddie Mac have the largest collection of housing data for US housing that is collected from appraisals, but not shared with appraisers in performing valuation assignments.

The use of Appraisal Waivers that results in no appraisal being performed on the property being used as collateral. In a purchase transaction, the lack of an appraisal in the process does not provide the buyer with an objective opinion of value that can be used in making the purchase decision.

Consumer Tips:

When purchasing a property, if the offer is “subject to an appraisal” the transaction will not qualify for the “appraisal waiver” and will allow the borrower to review and appraisal as part of the purchase

transaction.

A property owner can always engage an appraiser for their own use. While the appraisal can't be used for a federally insured lender transaction, it can be used to ensure that the price paid or a potential asking price is consistent with the market.

If a borrower obtains an appraisal completed by a lender generated by lender engaged appraiser, a borrower can engage a second appraiser to verify the reliability of the appraisal. If there are material defects in the appraisal, a borrower may appeal the appraisal and get the appraisal corrected or have the lender engage another appraiser.

Conclusion:

There are a number of additional changes in the wind for valuation services. With the trend towards the use of "Big Data" over the use of professional appraisers and where appraisal waiver are being used by the large Government Sponsored Enterprises (GSE) there are concerned about the risk to the individual consumer together with the exposure to the tax payers. Most people remember the relaxed lending requirements initiated in 2005 along the chaos that followed during the great recession.

There are concerns about the potential impact on the market with the use appraisal waivers and the use of alternative valuation tools. While market dynamics are somewhat different than they were 10 years ago, we are seeing record setting median residential prices across the county, one has to question the wisdom significant alterations to the valuation process.

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