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## **What valuation options are available for clients?**

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The continued instability in today's housing market makes converting a potential mortgage lead to an actual borrower extremely challenging. Of the many factors that come into consideration, one key factor is the property appraisal. With the extensive number of regulations passed related to appraiser independence, various obstacles exist for a mortgage originator to gauge property value when accepting a loan application. While ordering a full appraisal is always an option, borrowers are hesitant to spend between \$400 and \$700 in advance and out of pocket, without knowing if the desired property falls within the required value acceptable for loan approval. So the question stands - what valuation options are available?

One option is to purchase an AVM (automated valuation model). An AVM, also called a Comparable Sales Report, uses online databases to try and match up similar properties to give you an idea of the range of sales prices that have been historically recorded. It is a good tool to supplement decision making, but AVMs are limited in their capability. Even though, recent AVM tools have become very sophisticated in their modeling, they still lack objective reasoning and do not necessarily consider actual "comparable properties" when assigning a value to an address.

Another option to assist in determining value is to obtain and review the tax assessment on a property. While this is an additional supplemental decision making tool, the tax assessment may be misleading. Depending on the state and county, the tax assessor's office may only revalue the property every three years. As the volatility of the housing market increases, changes in value occur more frequently.

A recent and more accurate determination of value used in the appraisal industry is the Desktop Valuation appraisal report. This is an affordable product that provides an accurate review of the potential market value of a residential property. Desktop Valuation is an actual appraisal report, sometimes referred to as a "limited appraisal" that is performed by a certified appraiser. The appraisal report gives lenders and borrowers an initial opinion of value on a property.

Appraisers research online information, such as the MLS database and tax records, and then determine an opinion of value based on the assumption that the property is in good condition and it conforms to the neighborhood in terms of style and construction. The desktop valuation report also contains information about the property type, market trends and comparable sales. By utilizing this product, the Desktop Valuation becomes a powerful tool that helps lenders to determine if a subject property can potentially meet the value requirement of the loan.

If the valuation meets the requirements of the loan, a full appraisal can subsequently be ordered. Typically the appraisal company absorbs the initial fee of the desktop valuation and applies it toward the full appraisal cost. This way, the consumer does not incur a total cost that is any more than if they had ordered a full appraisal initially. On the other hand, if the property does not ultimately fall within the required value range, the investment was significantly less compared to the cost for a full

appraisal.

It is also important to understand that the turnaround time on a desktop valuation typically only takes 24 hours. This ensures that the loan process is not stalled and the decision to continue the loan application can be made without delay. The constant change in lending regulations paired with the stringent appraisal guidelines make it imperative that mortgage originators have all of the valuation tools available so that they can make smart decisions fast.

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