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Doing appraisals in a slow market from the appraiser's side

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I am willing to bet that you have either experienced, or know someone who has experienced, an appraisal issue when either buying a house or refinancing. All of the problems seemed to be based on what are referred to as FNMA rules and nearly are about the comparable sales used. The professional appraiser needs to complete the report meeting FNMA requirements but remain fair reporting market activity and values.

First off, I offer a little defense for the underwriter and lending world. When the economy gets tough and banks lose money on real estate, lenders look for ways to better screen for bad loans and to be sure the subject's value is adequate to cover the loan before the loan is written. The easiest way to explain this is that banks like to loan on the All-American common house which is easily marketed if they foreclose. The problem is that Americans like different houses often adding their own little twist. This is different from the 1950s when post WWII houses were built and the entire neighborhood would be built from 2 or 3 sets of house plans. In other words, banks like common houses that are marketable. Herein causes the problem when appraising either a unique property or anything out of the ordinary. This fact is underlined by the most recent requirement by underwriters that the appraisers make a statement after the value conclusion if the concluded value exceeds the predominant neighborhood value by more than 10%. Recognizing that the predominant value is the typical house, the subject needs to be within 10% of the norm. I don't know about your neighborhood, but I know most neighborhoods, including mine, have a more than 20% spread in values.

One commonly quoted "FNMA rule" is that all three comparables must have sold within six months and be located within one mile of the subject property. In reality this is a guideline, not a rule, but any exceptions must be addressed by the appraiser. I work in rural Tolland which contains 40.3 square miles (close to 7 miles by 6 miles) and the minimum building lot size is 2 acres. So, there are not a lot of houses within one mile and if you are lucky, one or two sold recently. The guidelines also look for the same style house that is within 10% in age and size. Virtually every one of my appraisal needs to explain why the comparable guidelines could not be met. Even explaining this, a common request from the underwriter is "please supply two additional comparables that sold within six months, are within one mile, and are similar in size, age and style". My typical initial response is that my appraisal fee is not high enough for me to go buy two or three houses so I have the comps to use. Then I explain that the sales do not exist and I cannot make them up. Having said that, I do need to supply additional comparable sales. Sometimes this means going to a different town or considering a different style house, and sometimes I use an active listing to indicate a list price or ceiling of value for the subject. The best bottom line guideline to determine if a comparable is comparable is ask if someone is looking to buy the subject would they also look at the comparable sale if it were available.

Other common issue is when a house is in less than average condition and repairs are needed. The lender needs a list of repairs to put the house in average condition. The problem for the appraiser is that if you replace the kitchen floor and counters, the kitchen is in better than average condition. In other words, it is impossible to improve a kitchen floor that has tears and holes in it or a kitchen counter that is worn bare or chipped to just average condition as that item becomes in new condition. A buyer telling the seller that the lender is requiring repairs prior to the closing typically is met by the seller saying those needed repairs is why they priced the house lower and if the repairs are done they want a higher price. Personally, I have to agree with that logic.

Going back to the original comment that banks like to loan on only a typical house and everyone wants to own a house that is not typical. Other unique items we have experienced are one or two bedrooms in a house, an oversized building lot, or a house on acreage (which is quite common in my area of northeastern Connecticut), and in-law apartments.

The bottom line is the appraiser needs to do a professional job be it with a unique property or when comparable sales are far and few between. The appraiser needs to use common sense and report market activity, not just fill out the appraisal form. The Appraisal Institute trained appraiser can, and does, do this.

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