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## Where we've been, where we are and where we're going

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What do you think impacts value the most - supply vs. demand would be the obvious answer. But the availability of financing is the biggest factor affecting real estate values at this time. There are plenty of people that want to buy but they can't get financing. The buyers have to have a minimum credit score, the components of which have changed and are tough to control. Since FHA allows lower credit scores, many people are going with FHA loans. The major problem is that the appraisal is not just accepted if the value is sufficient for the loan. The property being appraised must be somewhat typical with recent sales that support value. Underwriters don't want to see many adjustments to the comparable sales or they think the property is too atypical to meet their lending criteria. So for reasons that no one can predict, a loan may be rejected. The problem is that in New England, we have very diversified housing. If you compare 3 sales to the subject being appraised, chances are there are many differences between those 4 houses. Appraisers spend many years learning how to make those adjustments and estimate market value. Appraisers should not be pressured or directed not to make adjustments that really should be made. Appraisers that don't make appropriate adjustments will lose sight of the real value of the property.

Local banks and credit unions work a little differently. They typically hire the best appraisers, let them do their job and lend on the property based on its value. If it needs work, construction loans are available. The "Catch 22" is that the borrowers have to qualify for the loan. So if the credit is a problem, the answer may be to go to the mortgage broker. If the property is the problem, it may be the bank or credit union that would be the best lender. It is tough to get the whole package. If an appraisal comes out lower than the sales price in a sale transaction, the seller may have to lower the price just to avoid starting the sale process over with a new buyer. So even though there was a value negotiated between the seller and buyer, both being prudent and knowledgeable, that sale price may be lowered because of the financing issue. This may now be a non-arms-length transaction and not be a very good comparable to then be used on other appraisals. The appraiser's job is to verify the circumstances of the sale and the condition of the house. MLS information alone is not going to tell you that. The biggest weakness I see when I'm reviewing appraisals is the lack of verification with a person that was involved in the transaction. The second biggest weakness is the lack of adjustments that should be there but aren't. Underwriters may think these appraisals look great but in reality they are truly misleading, and only by coincidence, will the value be reliable. Of course, if the appraiser has no intention of actually making many adjustments, then why bother verifying anything. So one weakness goes along with the other.

The other thing that has affected the "recovery" is the ridiculous way the larger banks are handling their REO's and short sales. Short sales often take forever causing buyers to give up, at which point the whole process starts over. Why? No one knows the answer to that mystery. It's like asking a parent why they insist on something and they say "because I said so that's why." Again, there are

ready, willing and able buyers that can't seem to get financing for these properties. Often banks won't allow any work to be done by the buyers before closing but they will allow it to have burst pipes, freeze damage and a list of other damage. For example, I went to an appraisal last summer where the broker told me that the bank had broken into the house, winterized it, changed the locks and never notified her. This happened the day before the appraisal and 2 weeks before the closing (on a perfectly warm day in June). So then the property had to be dewinterized. The stories are endless. The result is that banks are not getting near what they could for these properties and we all pay the price for their losses.

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