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## Corporate calculations: It's a "no brainer"

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We've all heard the expression "no brainer." If you're not familiar with the expression, it's a term used to describe a decision that is so easy to make that you don't even have to use your brain to get it right.

An acquaintance recently explained to me how easy it is for the big mortgage giants to make the right decision on the valuation of Real Estate Owned (REO). The logic went like this. There are approximately one million loans in foreclosure. If the lenders pay \$400 per appraisal for each of the properties, it will cost them a total of \$400 million. On the other hand, if they get a real estate agent to provide a broker's price opinion (BPO) for free, or for about \$50, collectively they save somewhere between \$350 and \$400 million. No brainer, right? How could anyone - with or without using their brain - come to any other conclusion?

We should all be executives of one of the big mortgage giants. Each of us is apparently capable of making the no-brainer decision. Each of us can do the calculation. Each of us should be given a great big bonus for being so bright.

But let's look at just one mortgage assignment we received recently - just one. This assignment had to go to a real appraiser because it involved a mortgage. It had to go to an appraiser, someone who actually completed 180 hours of professional education and worked to demonstrate a minimum of 2,000 hours of actual appraisal experience over a minimum of two years - in addition to a college degree.

The appraisal assignment was ordered from an asset manager who had the responsibility of selling the property for the mortgage giant that now owned it. The asset manager had employed a real estate agent to list and sell the property. The listing agent lived and worked about 90 miles away from the property. The listing in the MLS described the property as a "fixer upper" and encouraged other agents to bring their contractors and speculators. The property quickly went under agreement - maybe to the agent's sister - for about \$115,000. While the property needed some minor carpentry and a bit more landscaping, it was far from a "fixer-upper." It was totally livable. It wouldn't have met FHA property standards, but it was in relatively good condition.

We were hard pressed to find any potential comparable sales that would even suggest a value under \$200,000. Keep in mind that this property was under agreement for about \$115,000. Our opinion of value was around \$225,000. I guess you could call that an appraiser's version of a no-brainer; it was so easy to document and prove the value. Our opinion of value was around \$225,000 and the property was under agreement for about \$115,000. By my calculations, that's a difference of \$110,000, but let's just round down to \$100,000.

So let's take another look at the collective executive decision of the mortgage giants. They believe that they are saving almost \$400 million with their simple calculations. But, each time one of these mistakes are made - one of these \$100,000 mistakes - a small chunk of the \$400 million "savings" is

shaved off the "no brainer" bonanza. It only takes 4,000 of these mistakes to make up the entire \$400 million "savings." While 4,000 seems like a lot of mistakes, 4,000 is only four tenths of 1% of the one million properties under foreclosure.

Wouldn't it be great if only four tenths of 1% of this nation's properties was in foreclosure? Perhaps we need a few more people in charge who can see beyond their spreadsheets. Remember what my old immigrant friend used to say - "Buy cheap, get cheap".

Shaun Fitzgerald is president of Fitzgerald Appraisals, Easton, Mass.

New England Real Estate Journal - 17 Accord Park Drive #207, Norwell MA 02061 - (781) 878-4540