



# MBA Mortgage Fraud Conference

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## *Comps vs. Sales*

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## ***Comps vs. Sales***

*The selection of Comparable Sales  
is not just an “opinion”*

**The selection of comparable sales is the foundation for the value reported in both good appraisals and bad appraisals**

- Leaving the subject's neighborhood (market area) for comparable sales will likely result in an inflated property value
- There is a difference between a *“comp”* and a *“sale”*
- Targeting a sales price or value in the selection of comparables is **improper appraisal procedure**

## The Appraiser's Certification:

(Excerpt from URAR form)

7. *I selected and used comparable sales that are locationally, physically, and functionally the most similar to the subject property.*
10. *I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.*
12. *I am aware of and have access to, the necessary and appropriate public and private data sources, such as multiple listing sources, tax assessment records, public land records and other such data sources for the area in which the property is located.*

1. **Location**
2. **Site influence (if applicable)**
3. **Room Count (# of Bedrooms; # of Baths)**
4. **Style/Design**
5. **Gross Living Area (GLA or square footage)**
6. **Quality, Age, Condition, Amenities, Other**

The above is the ***order*** of **influences/features** that have the most impact on the value of a residential property.





- Except for ***Location***, the other influences listed may change in the order of importance and impact, depending on the various markets.
- ***Location*** is the primary consideration in the selection of comparable sales.

## ***Be cautious of statements such as the following:***

- *“Due to the lack of sales similar to the subject in size, quality, and amenities, it was necessary to extend the neighborhood boundaries.”*
- *“Due to the lack of sales similar to the subject in size, quality, and amenities, it was necessary to utilize comps from other neighborhoods”.*

# Leaving the Subject's Neighborhood to Obtain Comps (?)

***May be*** justified in the following situations:

- Few sales and listings are available (undersupply)
- Site influence such as waterfront, golf course, mountains, etc.
- Unique area (ex: historical)
- Rural or nonconforming area
- Specific underwriting requirements\*\*

# Leaving the Subject's Neighborhood to Obtain Comps (?)

- When utilizing sales from other neighborhoods, adjustments may be needed for the significant impact of **location**.
- Values from other neighborhoods may be affected by a variety of influences, such as:
  - Site values
  - School districts
  - Employment
  - Neighborhood amenities
  - Anything that the market recognizes—likes or dislikes

# Leaving the Subject's Neighborhood to Obtain Comps (?)

## **NOT** justified in the following situations:

- The Comps within the subject's neighborhood will not support the **contract price** or **value** needed to make the loan work
- Comps are selected primarily for similarity to the subject's square footage or to "bracket" the subject's square footage
  - Overlooks other significant factors/amenities/characteristics that impact value

# Leaving the Subject's Neighborhood to Obtain Comps (?)

## **NOT** justified in the following situations:

- Subject is unique for the neighborhood
  - Ex: subject has finished basement; most homes within the neighborhood do not have basements at all
- Subject is the only new home within the neighborhood
  - The use of all new home comps from other neighborhoods of new construction should be avoided
- At the request of the loan officer, mortgage broker, Realtor, builder, or anyone having an interest in the transaction

- Underwriting guideline meant to demonstrate relationship of subject’s price/value and GLA as compared with the neighborhood
  - The goal is to prove that the subject’s value is no the highest; or size is not the largest
- Typically applies to gross living area, sale price, adjusted sale price, and value
- Bracketing is **not found in the development process of an appraisal.....not found in USPAP**

- When not used properly, bracketing may force the inclusion of inappropriate sales and/or sales located outside of the subject’s neighborhood.

***Bracketing will only be meaningful when limited to the subject’s neighborhood***

- Comps selected from outside the subject neighborhood when more similar ones located within the neighborhood.
- Unusually high or low prices of comps that do not fall in line with the other sale data
- A wide variance in sale prices of the comparables
- The Date of Sale of the Comps is not consistent with information found in the Neighborhood section.
  - Page 1 reflects an active or increasing market; comps are old

- Large variances in **site** sizes of the comparables as compared with the subject
- Comps located on superior sites with views such as **golf courses, waterfront/water view**, etc.; yet, subject does *not* have the same type of site or view
- All comps being inferior or superior to the subject in Quality of Construction or Design



- Inconsistency in the subject's **effective age** (page 1; URAR) and the **adjustments** to the comparables for quality/age/condition
- Assigning an **effective age** to the comparable sales without providing details of the condition, quality, upgrades, etc. of each comp.

***It is not possible for the appraiser to estimate the effective age of a comp without knowing all of these details.***

- Use of square footage as the primary selection criteria; then choosing comps outside the neighborhood for similarity to, or bracketing the square footage

Remember that GLA (square footage) is one element of comparison; it is not the most important influence on value

- Excessive variances in square footage
- The comps are significantly different from the subject in key elements of comparison—this may be a hint that they were located in a different markets

- Failure to emphasize the *best* comps to support the final opinion of value
  - Ex:
    - Comps 4, 5, or 6 (found on page 2; URAR) are truly the *best* comps
      - However, the adjusted prices of comps 4, 5, or 6 do not support the final
    - Therefore, appraiser emphasizes comps 1-3 and provides a value based on the first 3 comps.

- Compare the comps with the photographs, maps and all written descriptions
- Never review the Sales Comparison section without checking for consistency with the information provided on page 1 of the URAR, as well as any additional comments.
- Compare stats provided (top section of Sales Comparison page) with comps used:

## Uniform Residential Appraisal Report

File #

There are	comparable properties currently offered for sale in the subject neighborhood ranging in price from \$	to \$	.
There are	comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$	to \$	.



- If the comps are questionable, ask for additional ones
- Require (written) explanations if inconsistencies found in the appraisal report
- Require thorough explanations for support of effective age, large adjustments, reason for using comps from other neighborhoods, etc.

***It is the underwriter's responsibility to determine if the appraisal is acceptable***

- Overvalued properties have a wide impact:
  - Lender
  - Borrower
  - Investors
  - Consumers
  - Economy

*The proper selection of Comparable Sales is critical to an accurate appraisal*

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