



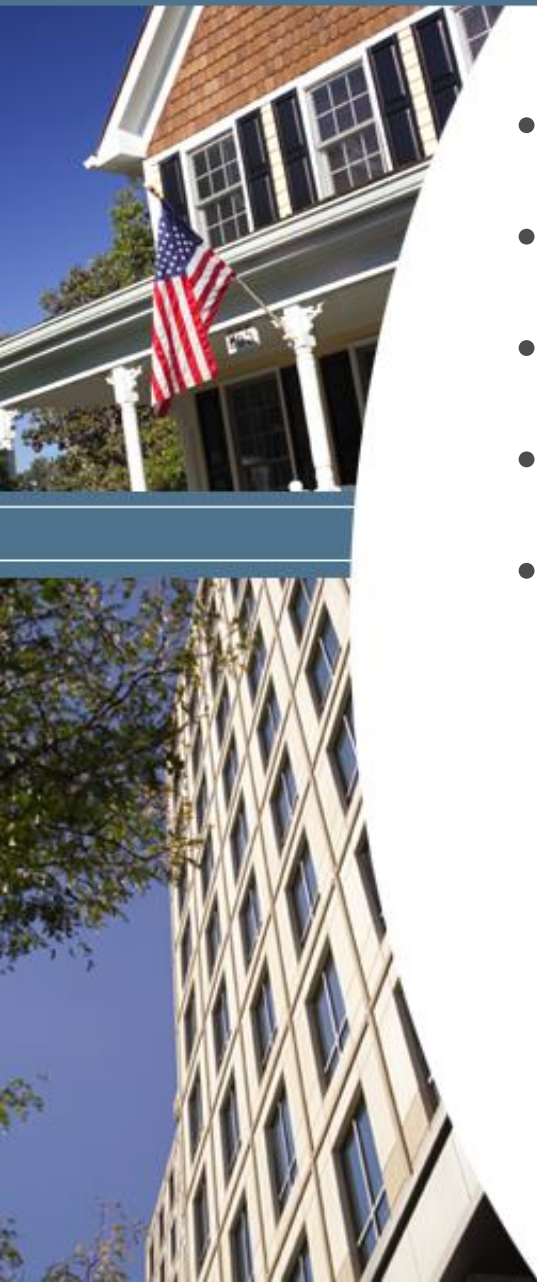
# Appraisal Review in a Declining Market

Kathy Coon, SRA

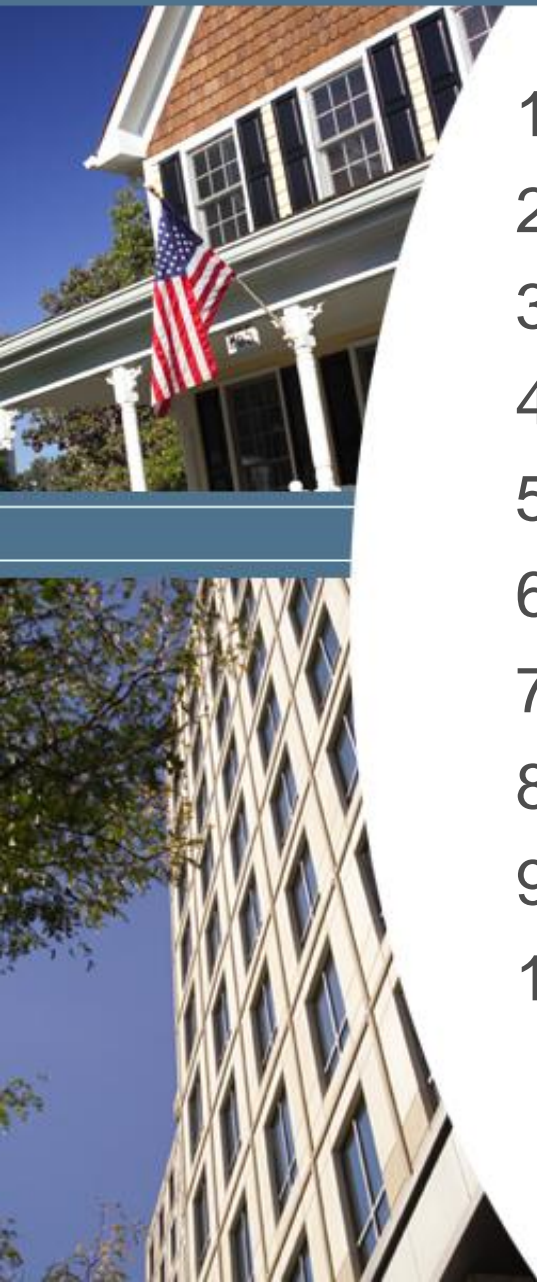
Chief Appraiser

FNC Inc.

# The Challenges of a Declining Market

- 
- Is the appraisal accurate?
  - Is the value supported?
  - What is my risk?
  - Should I accept the appraisal?
  - What if the appraisal doesn't state “declining values?”
    - » What if it does?

# Top 10 Clues of a Declining Market

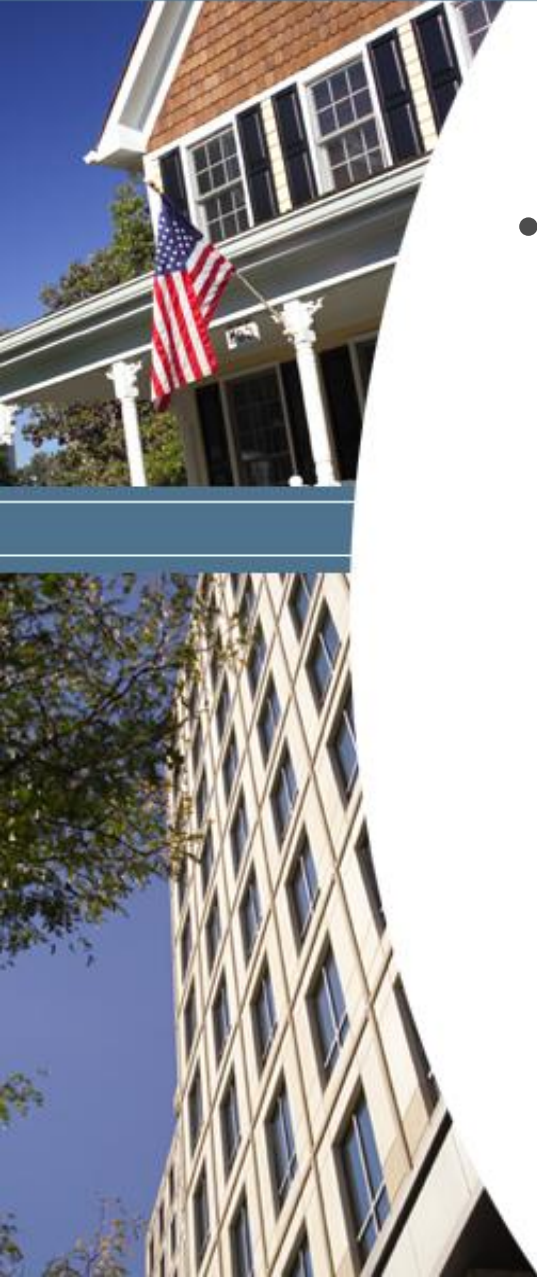
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1. Prior Listings
  2. Sales Contract – Concessions
  3. Neighborhood ratings
  4. Supply/Demand Analysis
  5. Proximity & Price of Comparables
  6. Date of Sale
  7. Quality of Comparables
  8. History
  9. Opinion of Value
  10. Do You Believe It?

# Clue #1: Prior Listings

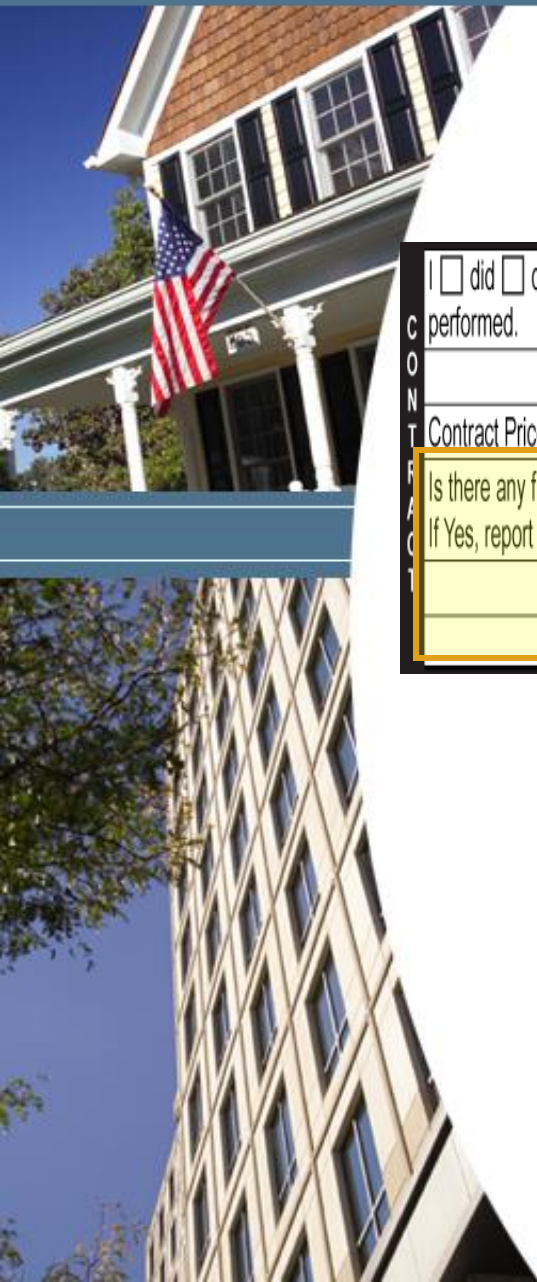


The purpose of this summary appraisal report is to provide the lender/client with an accurate, and adequately supported, opinion of the market value of the subject property.

Property Address	City	State	Zip Code
Borrower	Owner of Public Record	County	
Legal Description			
Assessor's Parcel #	Tax Year	R.E. Taxes \$	
Neighborhood Name	Map Reference	Census Tract	
Occupant <input type="checkbox"/> Owner <input type="checkbox"/> Tenant <input type="checkbox"/> Vacant	Special Assessments \$	<input type="checkbox"/> PUD HOA \$	<input type="checkbox"/> per year <input type="checkbox"/> per month
Property Rights Appraised <input type="checkbox"/> Fee Simple <input type="checkbox"/> Leasehold <input type="checkbox"/> Other (describe)			
Assignment Type <input type="checkbox"/> Purchase Transaction <input type="checkbox"/> Refinance Transaction <input type="checkbox"/> Other (describe)			
Lender/Client	Address		
Is the subject property currently offered for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? <input type="checkbox"/> Yes <input type="checkbox"/> No			
Report data source(s) used, offering price(s), and date(s).			

- 
- **Prior list price**
    - » Was it significantly *higher than* the contract price?
      - Market may be declining?
    - » Is it *lower than* the contract price? **RED FLAG**:
      - Seller concessions?
      - Review value closely

# Clue #2: Contract - Concessions



C O N T R A C T	I <input type="checkbox"/> did <input type="checkbox"/> did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.		
	Contract Price \$	Date of Contract	Is the property seller the owner of public record? <input type="checkbox"/> Yes <input type="checkbox"/> No Data Source(s)
	Is there any financial assistance (loan charges, sale concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? <input type="checkbox"/> Yes <input type="checkbox"/> No If Yes, report the total dollar amount and describe the items to be paid.		

# Seller Concessions

- Concessions result in an **inflated sale price** and a **false value**.
- Concessions DO NOT add value to the property...they only inflate the **Sale Price**.
- The use of concessions increases during a down market.

# Seller Concessions

Contracts must be reviewed closely by both appraisers and underwriters.

- New home builders offer variety of concessions and incentives.
- Concessions may be included in “side deals” – not disclosed by Realtors or builders.



There is no database that identifies concessions:

- » Appraisers often cannot get this information
- » Quality control processes cannot verify the information
- » Taxing authorities cannot identify concessions

# Clue #3: Neighborhood

Neighborhood ratings/data not consistent with the comparables.

**Note: Race and the racial composition of the neighborhood are not appraisal factors.**

N E I G H B O R H O O D	Neighborhood Characteristics	One-Unit Housing Trends	One-Unit Housing		Present Land Use %
	Location <input type="checkbox"/> Urban <input type="checkbox"/> Suburban <input type="checkbox"/> Rural	Property Values <input type="checkbox"/> Increasing <input type="checkbox"/> Stable <input type="checkbox"/> Declining	PRICE	AGE	One-Unit
Built-Up <input type="checkbox"/> Over 75% <input type="checkbox"/> 25-75% <input type="checkbox"/> Under 25%	Demand/Supply <input type="checkbox"/> Shortage <input type="checkbox"/> In Balance <input type="checkbox"/> Over Supply	\$ (000)	(yrs)	2-4 Unit	%
Growth <input type="checkbox"/> Rapid <input type="checkbox"/> Stable <input type="checkbox"/> Slow	Marketing Time <input type="checkbox"/> Under 3 mths <input type="checkbox"/> 3-6 mths <input type="checkbox"/> Over 6 mths	Low		Multi-Family	%
Neighborhood Boundaries			High	Commercial	%
			Pred.	Other	%
Neighborhood Description					
Market Conditions (including support for the above conclusions)					

# The evidence: inconsistencies

- 
- Location
  - Built-up
  - Property Values
  - Demand/Supply
  - Present Land Use
  - Price Range

## Compared to Comparables:

- Supply/Demand (top of page 2 of 1004)
- Proximity of comps
- Sale Price of comps
- Date of Sale of comps
- Elements of Comparison (location, physical attributes, etc)

## Neighborhood Boundaries:

- Compare to location of comparables

## Market Conditions:

- Review for inconsistencies
- Look for “straddling the fence”
  - » Ratings boxes vs. narrative comments

# Clue #4: Supply/Demand

- Top of page 2 of URAR:

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 \$				
FEATURE	SUBJECT	COMPARABLE SALE # 1		COMPARABLE SALE # 2		COMPARABLE SALE # 3		
Address								
Proximity to Subject								
Sale Price	\$		\$		\$		\$	
Sale Price/Gross Liv. Area	\$	sq. ft.	\$	sq. ft.	\$	sq. ft.	\$	sq. ft.
Manufactured Home		<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Yes	<input type="checkbox"/> No	<input type="checkbox"/> Yes	<input type="checkbox"/> No	
Data Source(s)								
Verification Source(s)								

# Price ranges not the same?



## 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 \$

One-Unit Housing	
PRICE	AGE
\$ (000)	(yrs)
Low	
High	
Pred.	

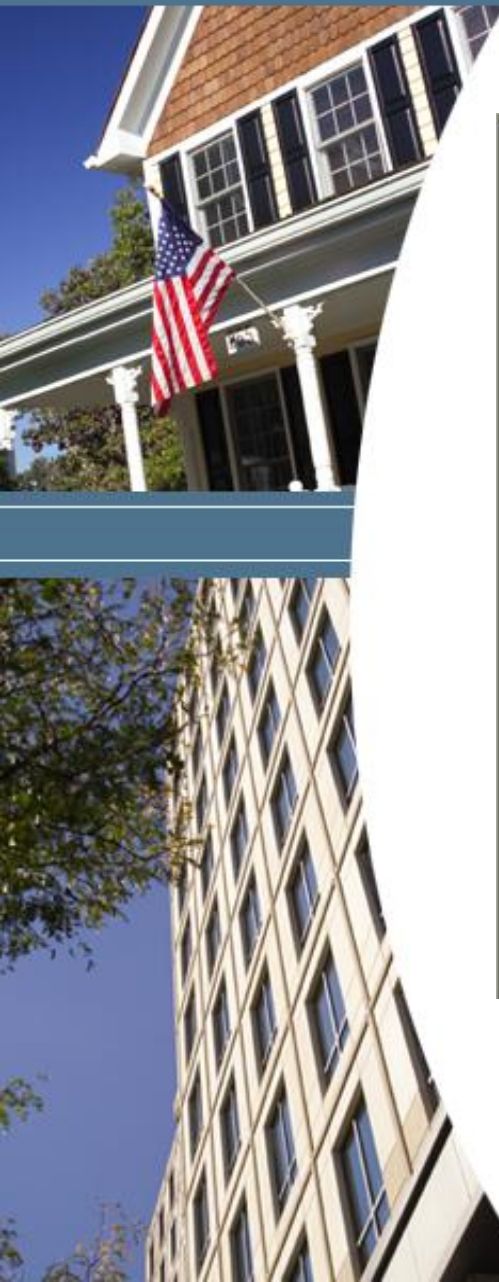
# Supply/Demand

The data supplied in these fields must be *competitive* with the subject property.

## 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 \$




## Uniform Residential Appraisal Report

File # 22 Main

There are 15 comparable properties currently offered for sale in the subject neighborhood ranging in price from \$175000.00 to \$ 200000.00													
There are 8 comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$160000.00 to \$ 250000.00													
FEATURE		SUBJECT			COMPARABLE SALE # 1			COMPARABLE SALE # 2			COMPARABLE SALE # 3		
Address		22 Main Street Anytown			38 SR 220 Anytown			49 Elm Street Anytown			40 Central Blvd. Different Town		
Proximity to Subject					1.0 miles SE			2 blocks east			2.5 miles east		
Sale Price		\$ 200000			\$ 225000			\$ 230000			\$ 190000		
Sale Price/Gross Liv. Area		\$ 111.11 sq. ft.			\$ 147.54 sq. ft.			\$ 133.33 sq. ft.			\$ 158.33 sq. ft.		
Data Source(s)		MLS			MLS			MLS			MLS		
Verification Source(s)		Public Records			Public Records			Public Records			Public Records		
VALUE ADJUSTMENTS		DESCRIPTION			DESCRIPTION + (-) \$ Adjustment			DESCRIPTION + (-) \$ Adjustment			DESCRIPTION + (-) \$ Adjustment		
Sale or Financing Concessions		Average			Conventional Typical			Conventional Seller pd 3.0 pts			Conventional No Concessions		
Date of Sale/Time		7/1/2008			7/1/2008			1/20/2008			11/01/2007		
Location		Average			Average			Average			Average		
Leasehold/Fee Simple		Fee Simple			Fee Simple			Fee Simple			Fee Simple		
Site		2.5 acres			5.0 acres -24000			5.0 acres +/- -24000			2.5 acres +/-		
View		Wooded			Traffic Street 12000			Wooded			Wooded		
Design (Style)		Ranch			Ranch			Ranch			Ranch		
Quality of Construction		Av/Frame			Av/Brick -6000			Av/Brick -6000			Av/Frame		
Actual Age		A43/E35			50 years			40 years			40 years		
Condition		Average			Average			Average			Average		
Above Grade		Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths	Total	Bdms.	Baths
Room Count		6	3	2.0	5	3	2.0	6	3	2.0	5	2	1
Gross Living Area		1800 sq. ft.			1525 sq. ft. 9600			1725 sq. ft. 2600			1200 sq. ft. 21000		
Basement & Finished Rooms Below Grade		na crawl			na crawl			na crawl			na crawl		
Functional Utility		Average			Average			Average			Average		
Heating/Cooling		FWA/CA			FWA/CA			FWA/CA			FWA/CA		
Energy Efficient Items		None			None			None			None		
Garage/Carport		Gar 2 -Det			Gar 2-Att			Gar 2 -Att			Gar 2 -Detach		

#FNC-R-SCA-243-03 - Gross Living Area: Comparables: Comparables 1-3 contain POSITIVE (+) adjustments across the board

# Supply/Demand



There are **15** comparables properties currently offered for sale in the subject neighborhood ranging in price from **\$175,000** to **\$200,000**.



There are **8** comparable sales in the subject neighborhood within the last 12 months ranging in sale price from **\$160,000** to **\$250,000**.



# Uniform Residential Appraisal Report

File # 070513

There are 7 comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ 107,000 to \$ 139,900 .

There are 40 comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ 93,000 to \$ 140,000 .

FEATURE	SUBJECT	COMPARABLE SALE # 1	COMPARABLE SALE # 2	COMPARABLE SALE # 3
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# Supply/Demand

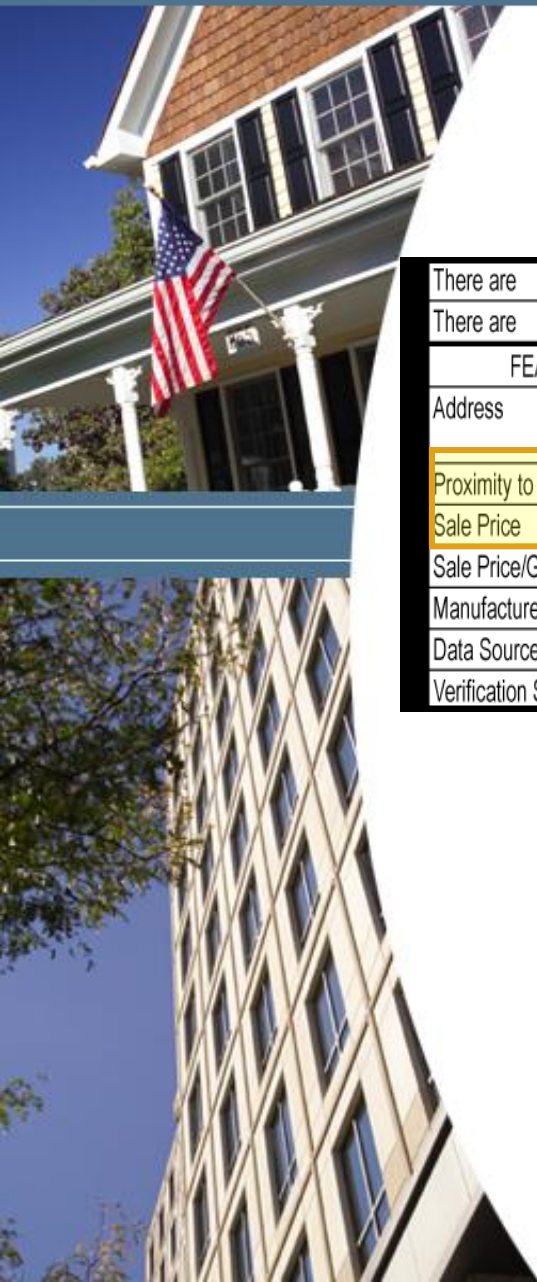


There are **7** comparables properties currently offered for sale in the subject neighborhood ranging in price from **\$107,000** to **\$139,900**.



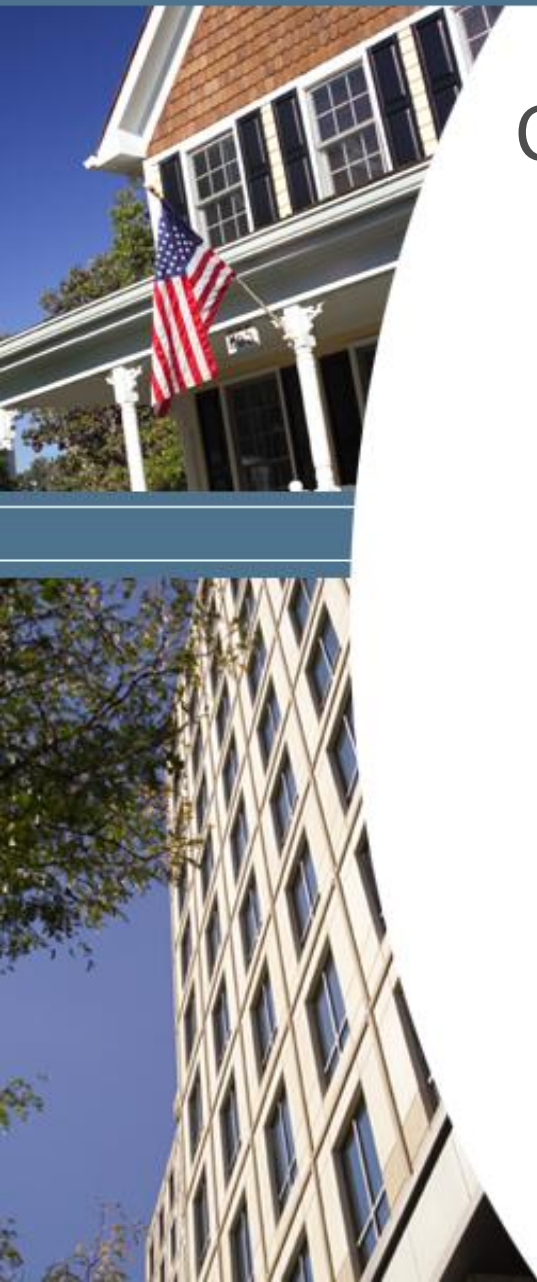
There are **40** comparable sales in the subject neighborhood within the last 12 months ranging in sale price from **\$93,000** to **\$140,000**.

# Clue #5: Proximity & Price



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 \$			
FEATURE	SUBJECT	COMPARABLE SALE # 1		COMPARABLE SALE # 2		COMPARABLE SALE # 3			
Address									
Proximity to Subject									
Sale Price									
Sale Price/Gross Liv. Area									
Manufactured Home									
Data Source(s)									
Verification Source(s)									

# Clue #5: Proximity & Price



Compare the distance/price of comparables with the Neighborhood ratings:

- » Watch for distances increasing
- » Watch for higher priced comps being greater in distance

# Proximity & Price

Example:

- Location: **urban**
- Built-up: **100%**
- Property Values: **stable**
- Demand/Supply: **in balance**
- Present Land Use: **One-Unit 100%**

# Proximity: Location: “Urban”

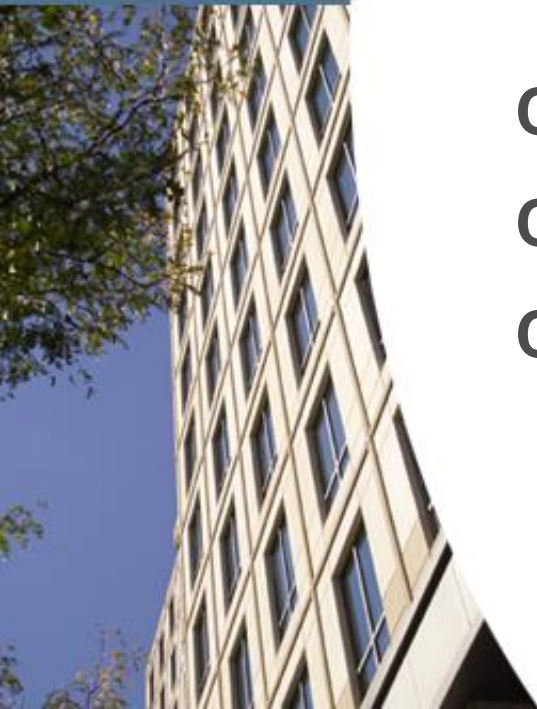


Proximity to Subject	1.27 miles NW	0.48 miles NW	2.52 miles NW
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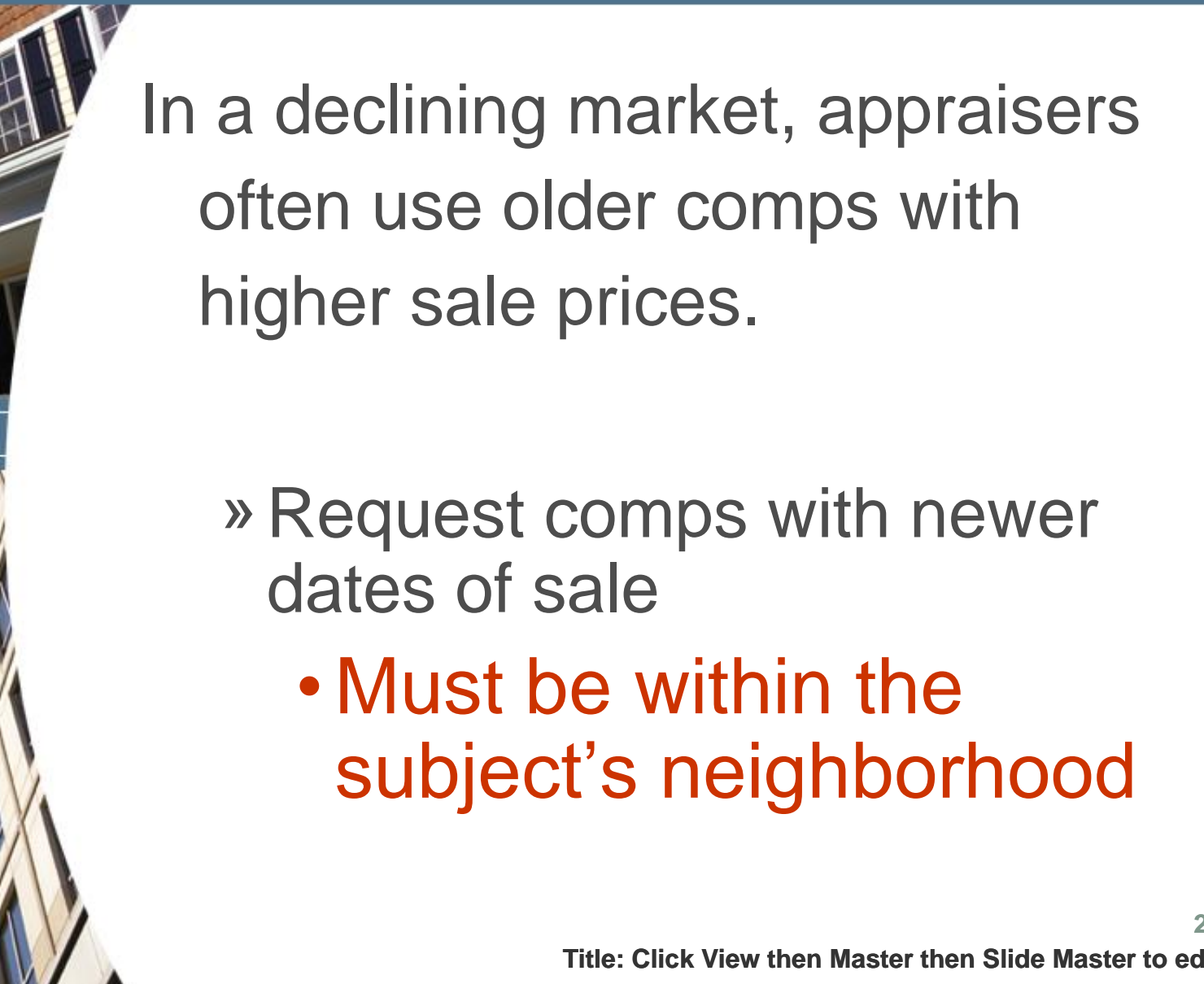
**Comp #1: 1.27 miles**

**Comp #2: 0.48 miles**

**Comp #3: 2.52 miles**



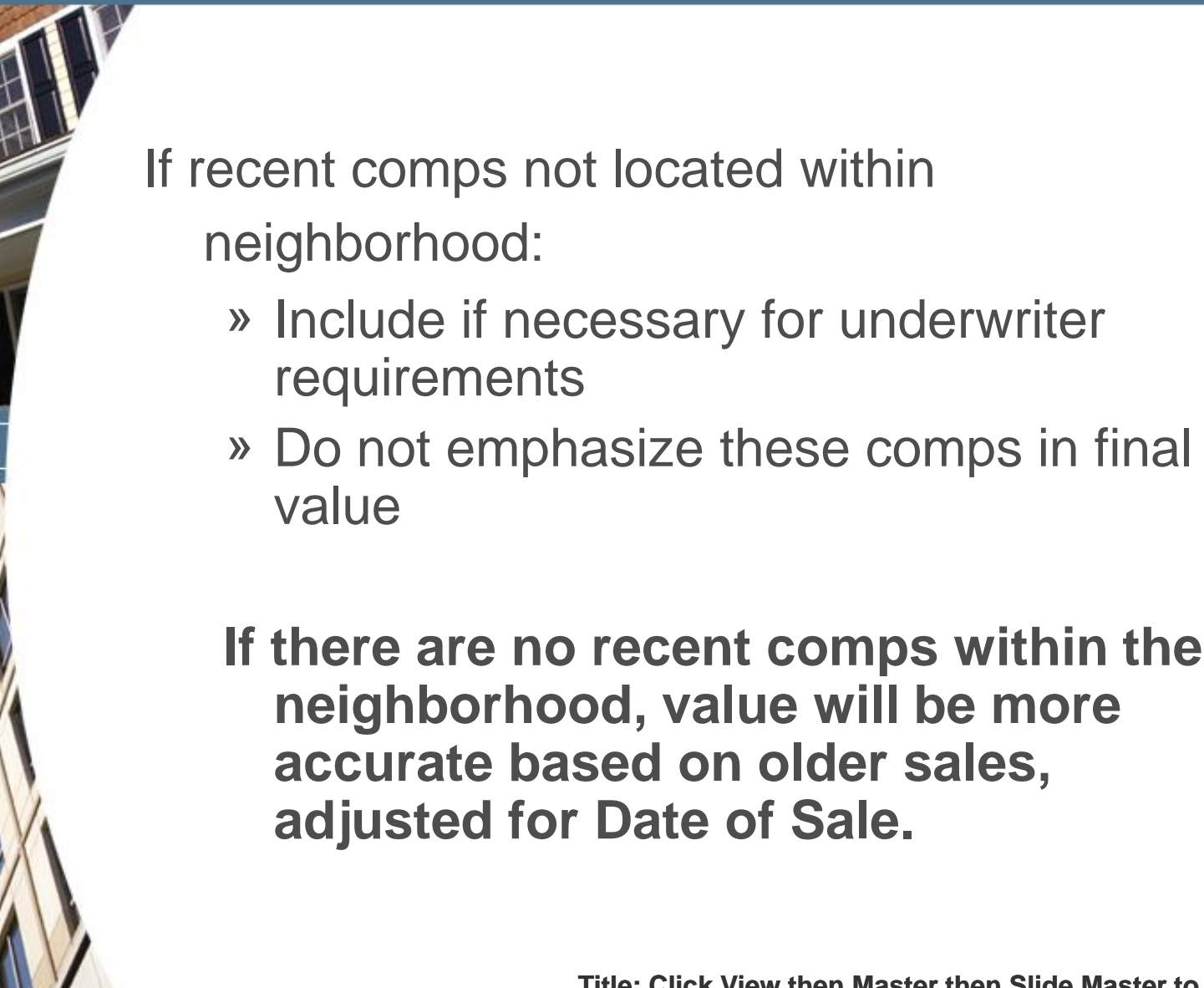
# Clue #6: Date of Sale



In a declining market, appraisers often use older comps with higher sale prices.

- » Request comps with newer dates of sale
  - **Must be within the subject's neighborhood**

# Clue #6: Date of Sale



If recent comps not located within neighborhood:

- » Include if necessary for underwriter requirements
- » Do not emphasize these comps in final value

**If there are no recent comps within the neighborhood, value will be more accurate based on older sales, adjusted for Date of Sale.**

# Clue #7: Quality of Comps



Review for similarity to the subject  
based on:

## #1. Location

- » **Site influence (if applicable)**
- » **Room Count (# of Bedrooms/Baths)**

# Clue #7: Quality of Comps

Review for similarity to the subject  
based on:

- » **Style/Design**
- » **Square Footage (GLA-Gross Living Area)**
- » **Quality, Age, Condition, Amenities, Other**

# Clue #8: History



R O A C H	<input type="checkbox"/> did <input type="checkbox"/> did not research the sale or transfer history of the subject property and comparable sales. If not, explain				
	My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the subject property for the three years prior to the effective date of this appraisal.				
	Data source(s)				
	My research <input type="checkbox"/> did <input type="checkbox"/> did not reveal any prior sales or transfers of the comparable sales for the year prior to the date of sale of the comparable sale.				
	Data source(s)				
	Report the results of the research and analysis of the prior sale or transfer history of the subject property and comparable sales (report additional prior sales on page 3).				
	ITEM	SUBJECT	COMPARABLE SALE # 1	COMPARABLE SALE # 2	COMPARABLE SALE # 3
	Date of Prior Sale/Transfer				
	Price of Prior Sale/Transfer				
Data Source(s)					
Effective Date of Data Source(s)					

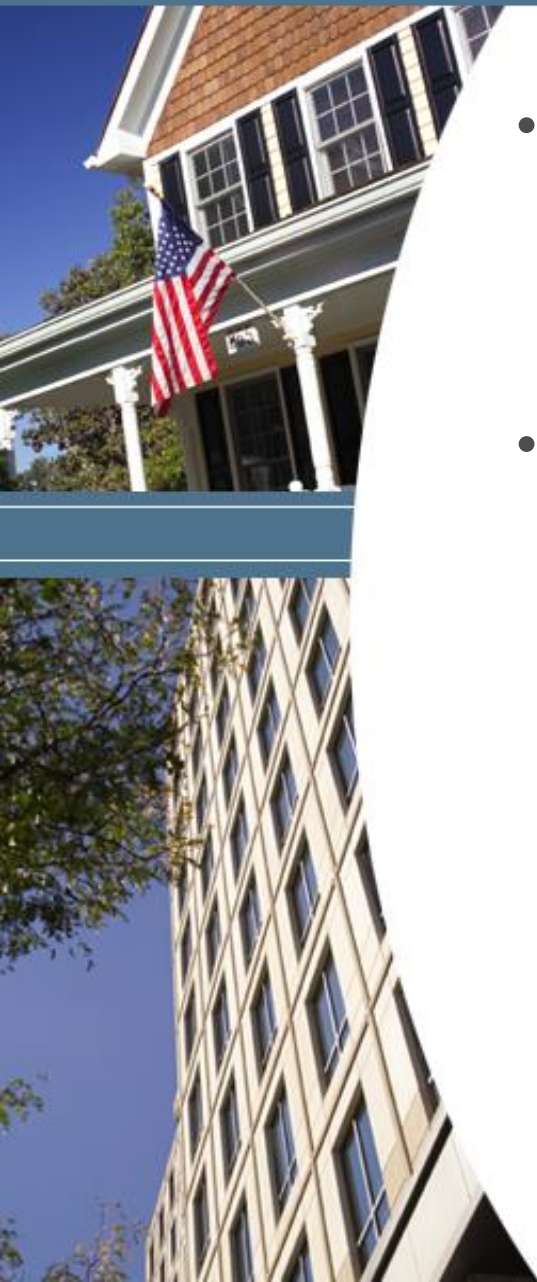
# History—*Analyze This!*



Analysis of prior sale or transfer history of the subject property and comparable sales

Summary of Sales Comparison Approach

Indicated Value by Sales Comparison Approach \$

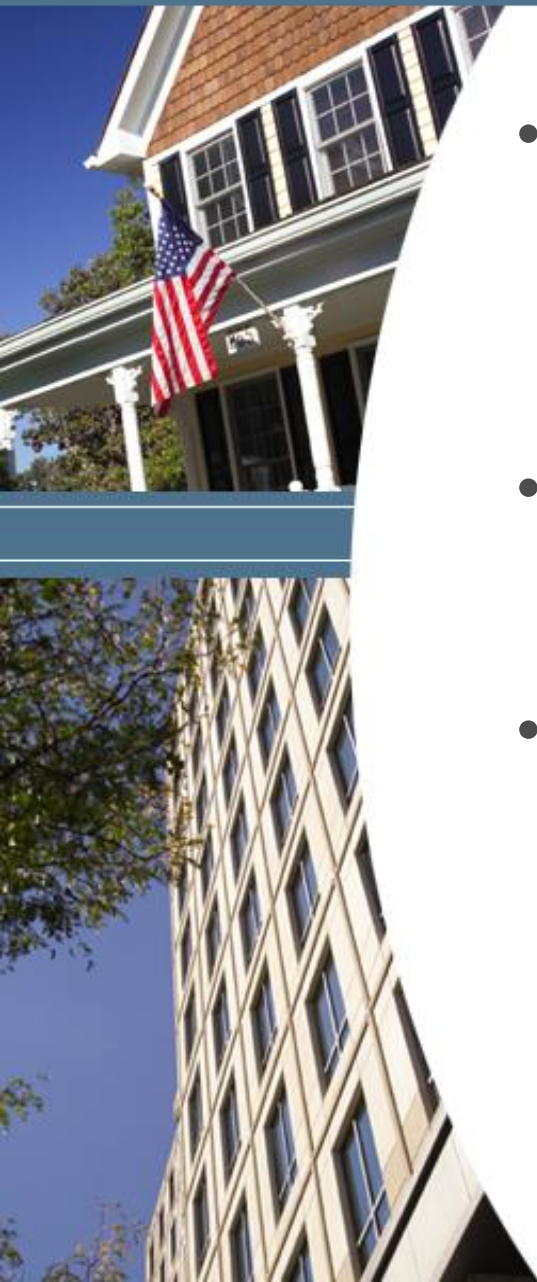
- 
- Is the Opinion of Value *higher* than a prior sale reported? What does this mean?
  - Is the Opinion of Value *lower* than a prior sale reported? What does this mean?

# Clue #9: Opinion of Value

Is there adequate support?

- Is the Value Bracketed?
  - » Unadjusted Sale Prices of Comps?
  - » Adjusted Sale Prices of Comps?
- Are Comps located within the neighborhood?

# Clue #10: Do you believe it?

- 
- Is the information provided in all sections of the appraisal report consistent?
  - Are all significant adjustments explained by the appraiser?
  - Is the appraisal analysis consistent with other tools and databases?

# Example of Inconsistency...

## Uniform Residential Appraisal Report

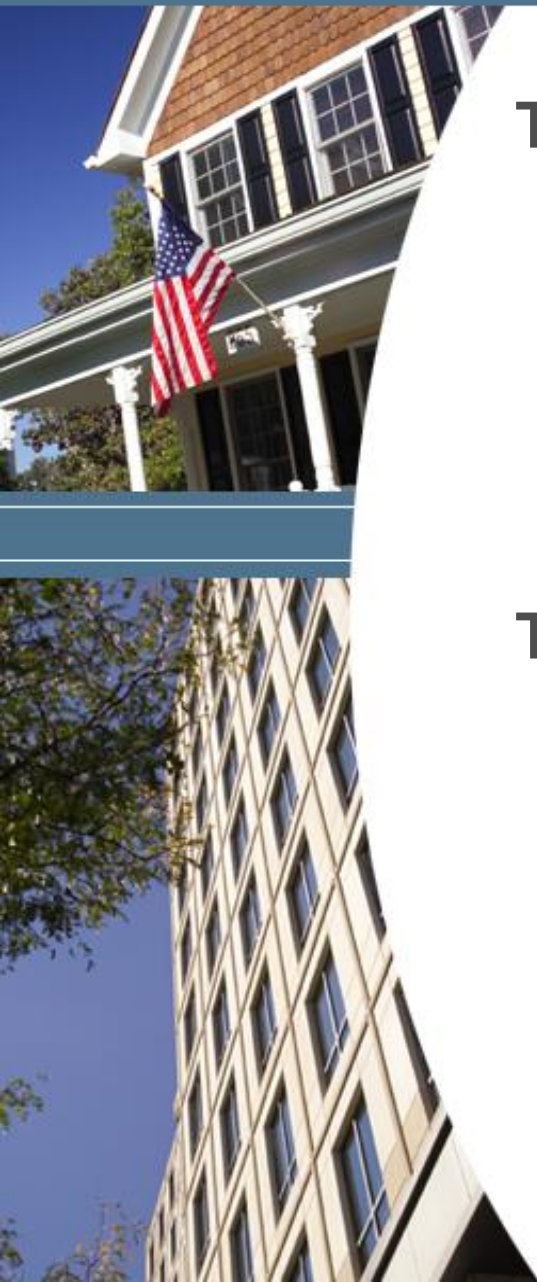
File # 070513

There are 7 comparable properties currently offered for sale in the subject neighborhood ranging in price from \$ 107,000 to \$ 139,900 .

There are 40 comparable sales in the subject neighborhood within the past twelve months ranging in sale price from \$ 93,000 to \$ 140,000 .

FEATURE	SUBJECT	COMPARABLE SALE # 1	COMPARABLE SALE # 2	COMPARABLE SALE # 3
---------	---------	---------------------	---------------------	---------------------

# Supply/Demand



There are **7** comparables properties currently offered for sale in the subject neighborhood ranging in price from **\$107,000** to **\$139,900**.

There are **40** comparable sales in the subject neighborhood within the last 12 months ranging in sale price from **\$93,000** to **\$140,000**.

# Opinion of Value

The Opinion of Market Value: **\$47,000**

10  
24

Based on a complete visual inspection of the interior and exterior areas of the subject property, defined scope of work, statement of assumptions and limiting conditions, and appraiser's certification, my (our) opinion of the market value, as defined, of the real property that is the subject of this report is \$ 47,000 , as of 5/4/2007 , which is the date of inspection and the effective date of this appraisal.

Freddie Mac Form 70 March 2005

Page 2 of 6

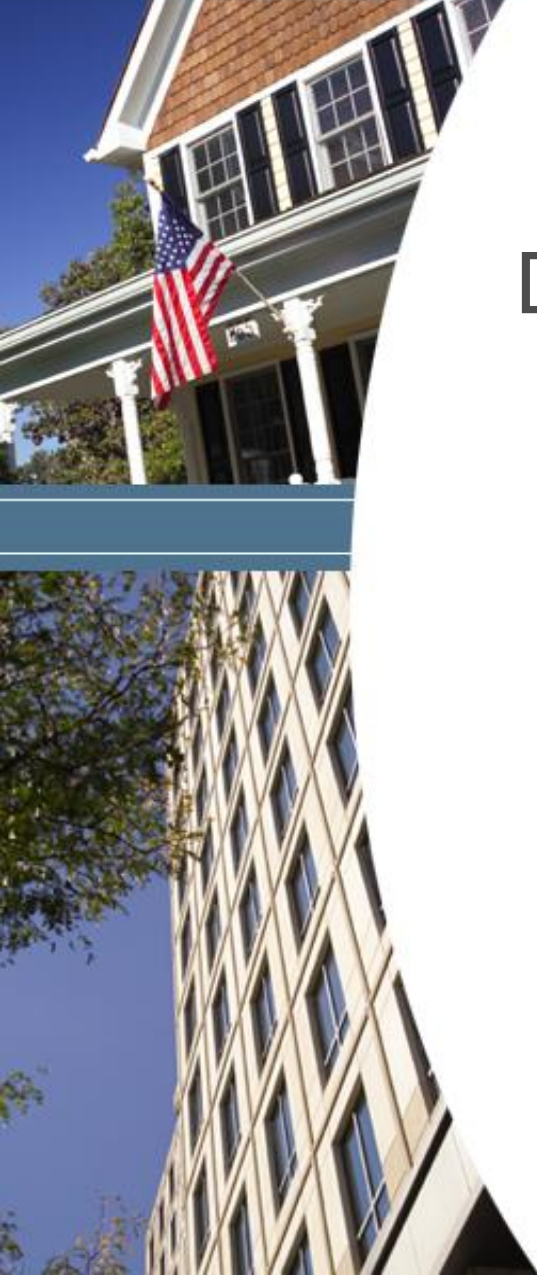
Fannie Mae Form 1004 March 2005

# Property Condition



Design (Style)	Ranch			Ranch			Ranch			Ranch		
Quality of Construction	Average			Average			Average			Average		
Actual Age	50			50			45			51		
Condition	Average			Average			Average			Average		
Above Grade	Total	Bdrms.	Baths	Total	Bdrms.	Baths	Total	Bdrms.	Baths	Total	Bdrms.	Baths

# Appraisers



Don't hesitate to question the appraisal and appraiser.

## USPAP: *Appraisals Must:*

- Be “credible”
- Include all “relevant” information
- Have “support”
- Contain “sufficient information”
- Not be “misleading”

# Quality Appraisers

- Develop “A” list of appraisers
- Do not use fee as the basis for choosing appraisers.
- Do not use turn time as a main criteria.
- Develop complete appraiser independence policy within your company.

# Quality Appraisers

- Engagements letters to appraisers:
  - » Should be detailed
    - Expectations
    - Requirements
  - » Should be included with all appraisal requests
- Keep score—have a “report card” on your appraisers.
- Reward your quality appraisers.



## The Declining Market:

- How bad is it?
- What caused it?
  - » Is it temporary?
  - » No end in sight?



## Could your risk be less than it appears?

- Markets are not all the same—analyze
  - » “Declining” may be overstated.
- Don’t give away your real estate
- Markets do recover