



## Appraisal Underwriting in the Current Market

I'm sure many of you have gotten unpleasant surprises a few days or hours before closing in the last year, concerning problems with appraisals. You were told weeks ago by the buyer's agent or the loan officer that the appraisal was done and everything was fine. Then you get the phone call from another appraiser wanting to schedule the second appraisal, or a call from the loan officer saying the review appraisal came back \$10,000 under the contract price, or the underwriter just did not like the first appraisal.

Increased scrutiny in the appraisal process has been one of the results from the mortgage meltdown. The environment has gone from one of little oversight and tremendous competition for mortgage loan volume to one of risk reduction and denials for little or no reason. There are very few circumstances in the current market where only one value estimate is completed prior to loan closing. Lenders are using a variety of tools to reduce risks and curb losses. One popular tool is the automated valuation model or AVM. This is a statistical program which evaluates the entire neighborhood and estimates the value of the subject property based on a set of assumptions made by the operator of the system. These don't tend to be very accurate and usually include data on properties that are not comparable to the subject. Regardless of their accuracy, lenders use these frequently and the appraiser who did the actual appraisal is often times asked to comment on the differences between the appraisal report and the AVM results.

Many lenders are having desk or field reviews performed on a large number of their loan files. These reviews are performed by a second appraiser. In the case of a desk review the second appraiser does not actually visit the property. He or she reviews the original appraisal based on what is contained in the report and data obtained from online databases like public records and the MLS. When a field review is required the second appraiser will visit the subject property. In some cases the lender may ask the appraiser to inspect the interior of the subject property or they will ask for an exterior inspection only where the appraiser will only inspect the subject property from the street. The appraiser will look at all of the comparable properties and will provide a report to the lender offering an opinion on the value estimate in the original report. If the review appraiser feels the comps used are inappropriate or there are better comps those will be provided. If the reviewer finds errors or inaccurate information concerning the subject property those will also be reported. If there is a significant difference between the original appraisal and the review appraisal, a third appraisal could be ordered, the appraised value could be lowered or the loan could be denied.

All parties in the transaction need to be aware of the new normal in appraisal underwriting. The original appraisal is now just the first step in determining how much the lender will loan on the subject property. The process is much lengthier and more expensive than it was just one year ago. Loan officers have no control over this process and usually have little knowledge of potential problems until they get the dreaded email or phone call from the underwriter. The only positive action you can take to prepare to deal with these issues is by performing solid CMA's backed up by good current sales. Sales that happened 10-11 months ago mean very little when there are lower sales in the last 90 days.