

Reader Feedback Regarding the Nov. 4, 2010, Column, What's the Difference Between an Appraisal & a Broker's Price Opinion?

From Norm Lewis, Guild Mortgage:

There is considerable confusion regarding the restrictions placed upon the various parties in a transaction due to the HVCC (Home Valuation Code of Conduct) rules currently in effect. The main issue that was addressed in HVCC is the influence of mortgage loan originators on real estate appraisers. Regulatory agencies were of the opinion that mortgage company representatives were coercing appraisers to arrive at property values that were not justified by the market. Consequently, HVCC was put in place to eliminate any contact between loan originators and appraisers. We as LO's are no longer allowed to communicate with appraisers concerning transactions for which we are arranging financing. However, the rule does not prohibit such contact by real estate agents or property sellers. If an agent or a seller has data they wish to present to an appraiser at the time of the appraisal inspection, they are free to do so. The appraiser can do with the information what they wish- consider it or disregard it.

From Don Opeka, Orion Mortgage:

Good article, as always, in the limited space.

From what I have seen, I would take issue with the concept that "Appraisers are expected to prevent a buyer from paying too much for a home". I thought the definition of appraised value was something like the price at which a willing buyer and seller would meet in an arm's length transaction. The contract represents the price at which a willing buyer and seller have met. Absent collusion, I think it is very hard to justify overturning the contract price. I think it is unreasonable for a buyer to expect an appraiser to save them from a bad buying decision. The buyer agreed to the price. The obvious question is: "Why did they agree to the price for this house if there is a better buy that's readily available?"

I also take issue with "The appraiser has little or no interest in what comparable homes are listed for." We have had many requests from underwriters who want to see current listings in the area. This is a concern in areas considered "declining market." When the market is dropping, the older solds can easily be above the prices on current listings. In this case, the current listings put a cap on value.

I also think there is a common perception that both appraisals and broker price opinions are more accurate than they really are. Sometimes, they are right on, but they can easily be off by 5% or more. The tolerance may be less on newer production built homes because there are plenty of very similar homes available. As the homes age, and owners modify them, maintain or don't maintain, the differences in what were once identical homes become more significant. These differences translate into value differences. If you walk an old Trendwood neighborhood, this becomes particularly apparent.

As the home includes more unique or custom features, it can be difficult to find true comparables. Mine is an excellent example. Appraisers have found "comparables" to complete their work, but none have truly been functional replacements for my home. They do some adjustments, come up with a price, but I'm not a seller at their prices. This is regularly an issue with

refinances, because there is no contract. I've had many conversations with borrowers that are offended by the value an appraiser put on a house using "comparables" that were not. I've also seen refinance appraisals that put values on homes that were well above what the owner could sell for. I've seen this on my house, too.

The joke is the appraisal that comes in \$500 or \$1,000 below a contract price. In these cases, I think the appraiser is just harassing the other parties to the transaction. The difference is rounding error, not a real value difference.

I have seen many low appraisals under HVCC. The problems were predictable by anyone who remembered their history. When the system provides incentives for high appraisals, we get high appraisals. When the system provides incentives for low appraisals, we get low appraisals. Lower values create more foreclosures. We'll see what comes next because the only solution to the foreclosure problem is rising prices. Inflation may create other problems, but high inflations ends foreclosures because owners can sell if they have financial difficulty.

From Bruce Gustafson, Crestline Mortgage Bankers:

With HVCC, I no longer have any communication - so I don't get a call that says, "Hey this property is not appraising - do you want me to continue?"

Also, with FHA's 203k loans, we have two appraisals — "before" and "after" improvements
It's pretty cool - where a buyer has an escrow after close for improvements - such as putting in new kitchen or carpet as part of the 1st mortgage. I had a 1890's home in Idaho Springs close that had a pull down stairs to 2nd floor, so the contractor put in a new stairs, new wiring and new kitchen using the 203k escrow.

From Shelley Ervin, Clarion Mortgage Capital:

Well written. Regarding the appraisal, every appraisal now contains current listings. I don't know if this is a Fannie Mae requirement, or if my lender requires this. I'm assuming that the listings indicate if pricing is going up or down.

From Beth Hanlon, Hanlon Appraisals:

The thing that bothers me about broker price opinions is that they don't take into account the differences in a property that will raise or lower a price. I recently saw a BPO that listed several houses as comparables to the subject, but the comparables had 2 car garages (subject did not) and had larger, finished basements. These items alone would drastically change the listing prices, but the BPO did not take this into account. Appraisals look at all the variables and give a more accurate portrayal of the true value of a home, unlike BPOs. And, as you said in your article, I do not have a stake in the transaction so am a true third party to the transaction and can therefore remain impartial. Our job, as you stated, is to appraise a house with the thought in mind, if the buyer died tomorrow, what could the house sell for if put back on the market? Sometimes this is lower than the contract price.