

# Appraisals FAQ

## What makes a good appraiser?

- A good appraiser understands the nuances of a neighborhood, is able to describe all relevant aspects of a property, quantify the differences between the subject and the comparables, and arrive at a value conclusion that stands up under scrutiny. The best appraiser is not always the appraiser who provides the highest subject value. Using a good appraiser helps avert problems after closing both on a short- and long-term basis.

## Does USA Direct Funding maintain a list of approved appraisers?

- USA Direct Funding monitors Federal and State lists of licensed and certified appraisers. Assuming appraisers do not fall under any controlled list and they are licensed/certified in the State in which the property is located we would accept the appraisal report for underwriting of the loan file.

## Does USA Direct Funding maintain a watch list of appraisers?

- We maintain a list that is a compilation of appraisers and appraisal companies with whom USA Direct Funding has risk concerns and/or monetary losses related to their work. Depending on the type and severity of the risk, USA Direct Funding determines what additional review is required if and when using these appraisers.

## Are some houses easier to appraise than others?

- Yes, if a house is located in an urban or suburban area where similar style homes are located or the property is in an active real estate market, value *should* be relatively easy to assess. In such areas, comparables should be close to the subject, similar in most aspects, and bear a recent sales date. However, in a slower market, a rural or sparsely populated area, or if a property is unusual or unique, assessing value is more difficult.

## What review questions will help identify a problematic appraisal?

Are the comparables similar to the subject in location, square footage, and room count?

Are the comparables current, and are they similar to the subject in appearance?

Does the appraiser include listings, pending sales, and cite days on market (DOM)?

Did the appraiser research foreclosures in the area and comment on their frequency and impact?

Are there any statements in the appraisal that could cause complications (i.e., atypical property, recent listing, improvements in process, etc.)?

Did the appraiser identify a declining market, and oversupply of homes and/or over 6 months marketing time?

**Tip:** A knowledgeable originator *thoroughly* reviews the appraisal before submitting it for underwriting, including the addendum and photo pages, concentrating on relevant aspects of the appraisal.

## What is an Automated Valuation Model?

- An Automated Valuation Model (AVM) is a relatively inexpensive computer generated report that compiles data on local property transactions applied statistically to the subject property. This type of report does not take into account an appraiser's input. AVMs typically include a reliability index, which is based on the amount and quality of data available in the specific location where the property is located. It should be understood that in a declining market an AVM may not be an adequate tool since it emphasizes historic sales and not listings.

 **If value is supported through an AVM or another review product, does that eliminate property issues and guarantee approval of my loan?**

- Assurance of value is not the sole function of an appraisal. Each lending program includes a list of acceptable and unacceptable property types, and USA Direct Funding also considers investor salability issues (for example, if the property is an over-improvement, or is remote, or if there is any other type of impaired marketability). Soft market or declining value conditions may also make a loan ineligible for approval. Finally, if the loan is not submitted immediately after the appraisal is completed, value which was supported at the time of inspection may not be currently supported.

 **What tools should an Appraiser use to assist them in their efforts?**

- Appraisers are wise to use ValueFinder, or some other AVM/Public Record product to assist them in obtaining applicable comparables data, and to assist in the evaluation of the neighborhood characteristics. Many third party vendors provide such information.

 **What is the difference between a desk review and a field review?**

A desk review is performed by an appraiser who does not visit the property.

A field review requires that the appraiser research the area and drive by and photograph the subject property, as well as the comparables, prior to preparing the review.

 **What if the property was purchased as a distressed asset or was heavily remodeled?**

- Stating that a previous transaction was sold below market or as a distressed asset is an easy way of explaining rapid appreciation, although not often justified. Appraisals on remodeled properties should include details regarding the improvements and interior photos in the appraisal. In many cases, repairs and cosmetic changes may make a residence more appealing, but not add substantial value. True improvements (i.e. adding an additional bathroom or a second story) have greater potential for increasing value significantly, but not if the property is overvalued for the neighborhood.

 **How can originators make sure that value is supported prior to submitting a loan?**

First, if at all possible, control how the appraisal is ordered and require that the appraiser determine value independently. Understand that value may be artificially enhanced if the appraiser is given a target figure by any interested party, especially if the borrower is seeking the maximum amount of cash out or displays a pattern of refinances with steadily increasing loan amounts.

Second, be aware of market trends: Is the property located in a market where values are appreciating, depreciating, or flat?

Finally, learn how to figure out appreciation since purchase. The computation is simple. For example, if a property sold for \$300,000 a year ago and appraised value is currently \$400,000, the \$100,000 increase represents 33% appreciation. Even in an appreciating market, a significant increase like this is improbable.

 **What causes my loan to receive a Red Flag message in Desktop Underwriter regarding property valuation?**

DU may return four potential Red Flag messages if their internal collateral assessment model indicates additional risk.

*#1 Excessive value* – the estimated or appraised value entered on the online loan application for the subject property in a refinance transaction appears to be excessive based on data in the DU collateral assessment model.

*#2 Excessive value with valuation risk* – there is a combination of excessive value noted in #1 along with other risk characteristics such as questionable occupancy, declining market or LTV.

*#3 Rapid appreciation* – the estimated or appraised value entered on the online loan application

for the subject property in a refinance transaction appears to have an excessive rate of appreciation based on a recent prior sale of the property.

#4 *Rapid appreciation with valuation risk* – there is a combination of rapid appreciation risk noted in #3 above along with other risk characteristics such as questionable occupancy, declining market or LTV.

### **Products USA Direct Funding uses to Support Value**

<b>Product</b>	<b>Description</b>	<b>When to use</b>	<b>Strengths</b>	<b>Limitations</b>
<b>AVM</b>	An Automated Valuation Model (AVM) is a relatively inexpensive estimate of what a specific property is worth, based on the latest computer database information and analysis of a variety of factors, including property attributes, location, recent sales, and other criteria.	<ul style="list-style-type: none"> <li>• No or few red flags</li> </ul>	<ul style="list-style-type: none"> <li>• Quick, low cost</li> <li>• Best in populated areas with active real estate markets and areas with good public record data.</li> </ul>	<ul style="list-style-type: none"> <li>• Doesn't replace the appraiser since this is database information only and a completely automated product.</li> <li>• Less valid in areas with less robust databases, new construction, non-heterogeneous areas, or where there are significant variances based on location, e.g., proximity to commercial or the ocean</li> <li>• Cannot detect flip activity</li> <li>• Tends to overstate value in a declining market and understate value in an appreciating market</li> <li>• Assesses value, not whether subject meets program guidelines</li> </ul>
<b>Desk Review</b>	Products that analyze the appraisal to determine the confidence or probability the value provided in the appraisal is accurate. It examines the logic and reasoning displayed in support of the value estimate and the appraisal report's compliance with USPAP.	<ul style="list-style-type: none"> <li>• Minor concern with value</li> <li>• Comfortably below maximum LTV/CLTV</li> </ul>	<ul style="list-style-type: none"> <li>• Performed by a licensed appraiser</li> <li>• Examines the appraisal and all comparables and provides commentary, a confidence rating and an alternate value (when warranted) on deficiencies observed.</li> <li>• USPAP Compliant/Certified</li> <li>• Relative low cost and quick turn around</li> </ul>	<ul style="list-style-type: none"> <li>• Appraiser does not visit the property</li> <li>• Appraiser may or may not have direct knowledge of area</li> <li>• May err in areas with organized flip activity</li> <li>• Can be difficult for appraiser to evaluate visual issues if photo quality is poor</li> <li>• Assesses value, not whether subject meets program guidelines</li> </ul>
<b>Enhanced Desk Review</b>	The Enhanced Desk Review is a Desk Review done by a local market appraiser who is familiar with the subject property area and market trends, and has access to local market data.	<ul style="list-style-type: none"> <li>• Stronger concern with value but need quick response</li> </ul>	<ul style="list-style-type: none"> <li>• Performed by a licensed appraiser who knows the area</li> <li>• Greater probability for identifying a flip than AVM.</li> <li>• Appraiser has access to the MLS</li> <li>• USPAP Compliant/Certified</li> </ul>	<ul style="list-style-type: none"> <li>• Appraiser does not visit the property</li> <li>• Assesses value, not whether subject meets program guidelines</li> </ul>

<b>Field Review</b>	A field review is similar to a desk review, with the added security of an exterior inspection of the subject property and comparable sales. A field review includes a photo of the subject, verification of comparable sales and verification of information on subject property. The field review may include additional comparables and possibly a revised value.	<ul style="list-style-type: none"> <li>• Complex property issues</li> <li>• Questionable appreciation</li> <li>• Major concerns with value or program requirement</li> <li>• Contradictory data about subject, comparables or market</li> </ul>	<ul style="list-style-type: none"> <li>• Appraiser knows the area</li> <li>• Appraiser drives by the subject and comparables</li> <li>• Appraiser can assess condition and curb appeal</li> <li>• Effective for all properties but especially for upper-end and atypical properties</li> </ul>	<ul style="list-style-type: none"> <li>• Costs more and takes more time than other methods.</li> <li>• Assesses value, not whether subject meets program guidelines</li> </ul>
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<b>Product</b>	<b>Description</b>	<b>When to use</b>	<b>Strengths</b>	<b>Limitations</b>
<b>Second Appraisal</b>	Required in certain instances, such as large loan amounts or properties with acreage, and high loan amounts. Mandated to be from a USA Direct Funding-approved appraisal company.	<ul style="list-style-type: none"> <li>• As required</li> </ul>	<ul style="list-style-type: none"> <li>• Provides a second independent assessment of value</li> <li>• Timely response if ordered simultaneously with first appraisal</li> </ul>	<ul style="list-style-type: none"> <li>• More expensive than a single appraisal</li> <li>• Does not reconcile differences between disparate opinions of value</li> <li>• Assesses value, not whether subject meets program guidelines</li> </ul>
<b>Desk History Review and Field History Review</b>	Similar to a field and desk review with the addition of analyzing chain of title for potential anomalies for "flip" indicators.	<ul style="list-style-type: none"> <li>• Potential flip situation</li> </ul>	<ul style="list-style-type: none"> <li>• Developed to identify flip activity</li> <li>• All the strengths of the field or desk review plus those specialty emphasis</li> <li>• Comprehensive research into sales history of subject and comps</li> </ul>	<ul style="list-style-type: none"> <li>• Under some circumstances, value conclusion may be indeterminate</li> <li>• Assesses value, not whether subject meets program guidelines</li> </ul>
<b>Broker Price Opinion (BPO)</b>	The BPO is a report prepared by a local, licensed real estate professional. The report combines information from a drive-by exterior examination, external data sources, previous sales data, property assessment data, recent comparable sales, and current neighborhood listings, as well as a photograph of the subject property.	<ul style="list-style-type: none"> <li>• Need an estimation of value not based on the appraiser's opinion</li> </ul>	<ul style="list-style-type: none"> <li>• Evaluator knows the local market</li> <li>• Independent assessment of value</li> <li>• Quick and relatively inexpensive</li> </ul>	<ul style="list-style-type: none"> <li>• Not completed by a licensed appraiser.</li> <li>• There are no uniform standards or regulation governing quality or consistency.</li> <li>• Use may be limited by licensing requirements in certain jurisdictions.</li> <li>• Evaluator could be a low level employee of the realtor</li> <li>• May be a "low-ball" assessment</li> <li>• Cannot substitute for a required product</li> <li>• Assesses value, not whether subject meets program guidelines</li> </ul>