



## ACCURATE APPRAISALS KEY TO SECURING MORTGAGE LOANS

*Changing Market Conditions Create New Challenges for Industry*



By John Forsythe, President of Forsythe Appraisals

For the homebuyer looking to secure financing for the purchase of a home, an accurate appraisal of the property is more important - and perhaps more challenging - than ever before. Lenders rely on professional appraisers to estimate the value of a home before approving a mortgage loan. However, this key step in the home-buying process now requires more research and analysis than it did prior to the national housing slowdown and 2007 collapse of the subprime mortgage market. The six most significant changes in the market include the following:

### 1. Fewer comparable sales.

In an active real estate market, an appraiser can typically prepare a valuation report after analyzing three to four comparable sales in the same neighborhood. However, in most communities, the slow pace of sales means appraisers need to look further afield, reviewing homes in other neighborhoods and making any necessary adjustments. Now, an appraiser might need to research and analyze numerous comparables located throughout several different neighborhoods, which requires much more time. This also means having a full understanding of the foreclosures in a market, as well as builder discounts on new construction.

### 2. Big discounts from listing prices.

In the first half of the decade, sellers frequently sold their homes for close to the listing price. Now, the differences between the list price and sales prices are much greater: a home that might originally have been listed at \$400,000, then reduced to \$375,000, before finally selling at \$350,000 for instance. Therefore, an appraiser needs to analyze the transaction to see if seller simply started with too high a price, or if the value of homes in the neighborhood are actually going down. Because of those reductions, a buyer or seller shouldn't put too much credibility on listing prices in their neighborhood to estimate the current value of a home.

### 3. More seller incentives.

To market their properties, many sellers are offering significant incentives to buyers, such as paying their closing costs. Because those concessions may affect a home's sale price, the appraiser must carefully research and review the closing information so they can accurately analyze and report the true market oriented sales price.

### 4. Greater concern about property conditions.

Buyers today can be very selective about the condition of the home. In most U.S. markets, a home in top-notch condition has significantly more value than one in poor or even average condition. That means appraisers need to take the time to adequately research the interior and exterior condition of sales and adjust differences accordingly.

### 5. Lenders are more cautious.

Since residential values are declining in many local markets, lenders are scrutinizing appraisals carefully to be certain of the potential risk in underwriting a mortgage loan. Professional appraisers are hired by the lender to be certain they receive an accurate, unbiased opinion of the home's value. Borrowers can request a copy of the appraisal from the lender. As a result of these conditions, and complexity of the market, appraisers are spending more time on research and analysis. As a result of the additional time and analysis, some appraisers have raised their appraisal fees.

### 6. Conclusions.

All aspects of the real estate transaction are more complex since the downturn of the market. This for the most part is a positive, as it has brought back structure and discipline to an appraisal process that needed to get back to the basics. Quality analysis, reporting, and valuation, not form fillers. Lenders, rightfully so, want to make good loans to qualified buyers regardless of local housing market trends. We view our role as professional appraisers as ensuring that everyone is singing from the same song sheet as it relates to value. There never was room for error in the appraisal process; it's just become more apparent during the current housing market.

July 10, 2008  
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