

FORSYTHE FLASH



Appraisal Insights for the Real Estate Professional

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REO Properties

By: Chris Westmas, Branch Manager: Forsythe Appraisals – Detroit.

An important part of a typical foreclosure proceeding is the REO (Real Estate Owned) appraisal. Most REO appraisal orders come straight from the lender. The appraiser contacts the agent or realtor assigned to the property to gain access and information on the property. Access to the property is generally much easier than a typical appraisal as the home is vacant, with a lockbox, or in some cases, as in Michigan, there is a key designated by Fannie Mae that can gain access to almost any REO or Bank Owned property in the Metro Detroit area.

The inspection, on the other hand, can be a little more time consuming than the typical 1004 appraisal due to the condition of the properties. Although some REO properties are in average/normal condition, the majority of homes are in a state of disrepair. Since most of these properties are vacant, some for quite some time, environmental factors can cause disrepair. With no one there to correct the damage, a small leak in the foundation can become a serious mold infestation. If the property is not properly winterized a world of problems can occur during the harsh winters. In the Detroit market area, there is a large problem with REO properties being vandalized with graffiti, people occupying the home, furnaces and even siding being stolen from the home, all of which adds a lot of security issues for the inspection as well. On one occasion, an appraiser from the Forsythe Appraisals Detroit office inspected a property of which the "occupant" was using an oven for heat; jumper cables were going from the subject property to the home next door to steal electricity for the oven. Luckily for the appraiser, the current occupant seemed to disappear for the duration of the inspection.

It is common for the companies that repair these homes to keep boards on the windows and wait to install the furnace/hot water heater in the home only days before a closing due widespread theft. The appraiser must take time and note every repair needed, in the subject property and document them with photos in order to accurately estimate the "cost to cure" of the deferred maintenance. The Detroit office has had one extreme to the other in handling REO properties, ranging from exceptionally nice homes valued over \$500,000 to burnt-out homes. REO appraisals, although not always the most pleasant to inspect, are rapidly increasing in numbers and are becoming a vital part the appraisal world.

Frequently Asked Questions:

Q: In what different ways does the REO appraisal value the home?

A: The REO appraisal defines the "as is" (current state) value of the home and the "cost to cure", addressing any needed repairs. By consideration of these values and the surrounding sales in the market, the appraiser estimates the "as repaired" value which is the value of the home after noted repairs are completed. Some clients request a "lendable" value which is estimated after considering the bare minimum of repairs needed for occupancy.

Mortgage Rates As of November 17

30 Year Fixed: **6.37%**
15 Year Fixed: **5.90%**
1- Year ARM: **5.20%**

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