



FORSYTHE FLASH



Appraisal Insights for the Real Estate Professional

March 17, 2005

Changes to FHA appraisals

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The Department of Housing and Urban Development (HUD) announced changes, as of January 4, 2005, to their policy regarding analyzing seller paid points and concessions for the subject property and all comparables.

HUD announced the new policy in “Mortgagee Letter 2005-02” which can be viewed on the HUD website by choosing “2005 letters” and then choose “05-02”

This change will affect all of us, from mortgage originators, processors, underwriters, appraisers, to builders and realtors. The result will be increased verification, analysis and some potential appraised value concerns when there are seller paid concessions. As a result, there will likely be increased phone calls to realtors, builders and lenders in an attempt to verify the specifics of the sales concessions.

Appraisers must report the total dollar amount of loan charges and concessions (including gifts, discount points, seller paid repairs, concessions, etc) paid on behalf of the borrower and describe who paid these concessions. This applies to both the subject and comparable sales.

Although appraisers have always been required to reflect the “cash equivalency” of any comparable used, the new guidelines require a much more detailed analysis and reporting process. Appraisers must now make market based adjustments to the comparables for any sales or financing concession, in order to reflect the difference between a sales price with concessions and a sales price without concessions.

An example of concessions impacting sales price would be as follows: A property is listed for sale on the open market for \$300,000 for a period of 60 days without selling. A buyer, without adequate down payment or closing costs, proposes a purchase price of \$330,000 with \$30,000 going towards the buyer’s down payment and closing costs. When a competent appraiser analyzes this sales transaction, a potential conclusion would be that the \$330,000 sales price does not reflect market value since the property was exposed on the open market for a reasonable amount of time and did not sell at \$300,000.

Please prepare your staff, realtors and builders for additional phone calls by appraisers attempting to verify financing information for the subject and potential comparables. Improved documentation in the multiple listing service sales data would help minimize these phone calls. Educating your realtors and builders about these changes may minimize the appraised value issues that may arise when purchase prices are inflated in an attempt to include seller paid concessions.

Mortgage Rates As of March 17th

30 Year Fixed: **5.95%**

15 Year Fixed: **5.47%**

1- year ARM: **4.20%**

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