

FORSYTHE FLASH

Appraisal Insights for the Real Estate Professional



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REO Appraisals

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The expertise of appraisers is called into action when a lender has a borrower who has become delinquent on a loan and must foreclose on the property. When the home is taken back by the lender, through the foreclosure process, the lender now has a non-performing asset; “Real Estate Owned”.

Appraisers are contracted to perform a vital function in the liquidation process. They are to provide an accurate valuation of the property in a timely manner to minimize the loss to the lender. HUD defines the purpose of the REO appraisal: *To provide the “as is” value of the foreclosed property for marketing and bidding purposes.*

When preparing an REO appraisal, the appraiser completes a field inspection of the subject property. Most of the time REO properties will be vacant, with utilities turned off, and will have some degree of deferred maintenance or required repairs in order to make the property marketable. It is the appraiser’s responsibility to be knowledgeable of that specific market to know what repairs will be necessary.

After the dwelling has been viewed and market data has been analyzed, the appraiser will recommend repairs in order to make the property marketable and sell within a short period of time. These recommended repairs will be defined and a cost to cure such items will be estimated. These estimates are typically the appraiser’s best opinion of a repair cost. For actual costs, the lender or REALTOR may consult a contractor. When the mechanical systems cannot be tested, due to the utilities being shut off, inspections/certifications are typically recommended.

The appraisal will contain an “as is” value estimated under typical market exposures, generally 90-120 days. Many lenders request a “quick sale” value as well. This incorporates a client imposed market exposure. The quick sale value is typically lower to quickly attract a buyer.

The other analysis the appraiser must complete is an “as repaired” value. This takes into consideration the hypothetical condition that the recommended repairs have been completed. This “as repaired” value may also be reflective of a client imposed maximum market exposure.

The REO appraisal contains valuable information about the subject and its market for the lender to analyze in order to determine the best marketing strategy for that property.

Frequently Asked Questions

Q: Why are utility inspections/certifications recommended?

A: When utilities are not active, the appraiser cannot verify the true condition of the mechanical systems. Without verification, the significant assumption is made that they are functional. If inspection reveals a defect, this could impact the valuation or the marketing strategy.

If you have a question you’d like to ask, please email ForsytheInfo@ForsytheAppraisals.com

Mortgage Rates As of January 20

30 Year Fixed: **5.67%**

15 Year Fixed: **5.15%**

1- year ARM: **4.11%**

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