

National Reverse Mortgage Lenders Association

# Everyone's Home Is a Castle: *Explaining Appraisals to Customers*



October 28-30, 2018 San Diego, CA

# Everyone's Home Is a Castle: Explaining Appraisals to Customers

## Presenter Information



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# *Everyone's Home Is a Castle: Explaining Appraisals to Customers*

## *Overview*

### **Main Points**

- Where The Industry Is Today
- Key Regulatory Requirements & Government Mandates
- The Continuing Evolution Of Valuations & Where The Industry Is Headed

**BACK  
TO  
THE FUTURE™**

# *Everyone's Home Is a Castle: Explaining Appraisals to Customers*

## *Preparing Your Borrower For Inspection*

### **FHA - Inspection Requirements:**

- Interior & Exterior inspection required of ALL areas of ALL structures
  - All Interior Rooms
  - All Outbuildings
  - Accessory Units
  - Additional Manufactured Homes on the Property
- Attics & Crawl Spaces must be accessible and inspected
- Utilities (water/gas/electric) must be on and functional at the time of inspection
- Mechanical systems (HVAC) must be on and functional at the time of inspection
- Well & Septic Systems should be shown to the appraiser since they are underground and many times missed by the appraiser



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## Preparing Your Borrower For Inspection

### FHA - Inspection Requirements:

- Required repairs are limited to necessary requirements to:



- Protect the health & Safety of the occupants (**S**afety)
- Protect the security of the property (**S**ecurity)
- Correct physical deficiencies or conditions affecting the structural integrity (**S**oundness)

The 3 **S**'s



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## Enhancing The Borrower's Appraisal Experience

### The Appraisal Process & Timeframes:

- Order to Assignment: Appraiser is typically assigned within a matter of hours  
*(Rural & Complex Assignments may take 24-48hrs)*
- Assignment to Inspection: Typically 24-48hrs subject to availability and schedules
- After the Inspection: Typically 24-48hrs *(Exceptions: Rural / Complex / Unique)*
- Quality Control: (UAD, GAAR Rules, etc..)
- Delivery Process: Mailing to Faxing.. to Emailing.. to Portals (EAD for FHA)
- Total Time From Order Placement to Delivery: 5-7 Business days



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## Managing Borrower Value Expectations

### Value is an opinion supported by market data and analysis:

- Up front conversations help manage expectations and understanding
- The appraiser's client is the Lender, NOT the borrower
- AVMs are NOT Appraisals
- Zillow.com is NOT the benchmark for appraisals
- There is a method to the appraiser's madness - USPAP (Uniform Standards of Professional Appraisal Practice)
  - Congressionally Mandatory Requirements



**DEFINITION OF MARKET VALUE:** The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and assuming the price is not affected by undue stimulus. Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby: (1) buyer and seller are typically motivated; (2) both parties are well informed or well advised, and each acting in what he or she considers his or her own best interest; (3) a reasonable time is allowed for exposure in the open market; (4) payment is made in terms of cash in U. S. dollars or in terms of financial arrangements comparable thereto; and (5) the price represents the normal consideration for the property sold unaffected by special or creative financing or sales concessions\* granted by anyone associated with the sale.

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## *Value Appeal Process – What You Can & Cannot Do*

### **Dodd Frank (H.R. 4173-812/813) – Appraiser Independence Requirements:**

- Defines what is and is not considered a violation of appraiser independence
- Made clear that there is no prohibition for a mortgage lender, mortgage broker, mortgage banker, real estate broker, AMC, consumer, or any other person with an interest in a real estate transaction from asking an appraiser to:
  - ✓ Consider additional, appropriate property information, including additional comparable properties to make or support an appraisal.
  - ✓ Provide further detail, substantiation, or explanation.
  - ✓ Correct errors within the appraisal report.

**BTW a lower than expected value is NOT AN ERROR!**





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## *Value Appeal Process – What You Can & Cannot Do*

### **Value Appeal Suggestions:**

- Set realistic expectations with the borrower
- Refrain from submitting unrelated or non-comparable sales
- Be professional with the appraiser and AMC
- Refrain from emotions and negative conjectures in emails
- Sales Comparables should be:
  - More Recent
  - More Proximate
  - More Similar

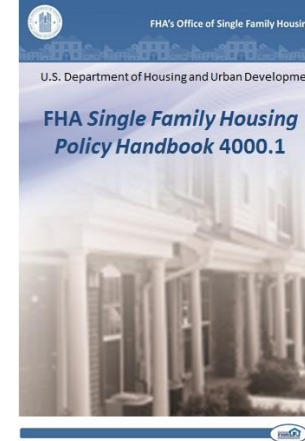


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## FHA Handbooks, Changes, & Guidelines

### FHA Handbook 4000.1:

- Went into place in 2015
- Replaced the handbook 4150.2 and prior Mortgage Letters
- Incorporated previous Mortgage Letter Guidelines directly into the Handbook
- Clarified and codified appraiser inspection & reporting requirements



### FHA Appraisal Report & Data Delivery Guide:

- Handbook for report formatting, UAD requirements, etc.



### Mortgagee Letter 2018-06:

- “FHA will require a second appraisal be conducted where a collateral risk assessment of the initial appraisal submitted for use in the HECM origination determines additional support for the collateral value is required.”

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## *FHA Handbooks, Changes, & Guidelines*

### **Transferring Existing Appraisals (Handbook 4000.1):**

“In cases where a Borrower has switched Mortgagees, the first Mortgagee must, at the Borrower’s request, transfer the appraisal to the second Mortgagee within five business days.”

- If the original Mortgagee has not been reimbursed for the cost of the appraisal, the Mortgagee is not required to transfer the appraisal until it is reimbursed.
- The Appraiser is not required to provide the appraisal to the new Mortgagee.
- **The client name on the appraisal does not need to reflect the new Mortgagee.**
- **The second Mortgagee may not request the Appraiser to re-address the appraisal. If the second Mortgagee finds deficiencies in the appraisal, the Mortgagee must order a new appraisal.**



# Everyone's Home Is a Castle: Explaining Appraisals to Customers Where The Industry Is Headed

## The Future For Valuations

- Reverse Mortgage - Jumbo Appraisals
- Property Inspection Waivers
- Hybrid and Bifurcated Solutions
- Injection of Data & Analytics (DnA) to the appraisal process



# *Everyone's Home Is a Castle: Explaining Appraisals to Customers*

## *Main Points Of Discussion*

### **Circle Back Around**

- Where The Industry Is Today
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