



appraisal news

Valuation news & opinions
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The affect of a special assessment on the appraisal process



Some builders in the Chicagoland market have found a creative way to fund the capital improvements for their subdivisions. They convince the local municipality to pay for the infrastructure improvements, and the municipality then levies a special assessment against the properties in the subdivision.

The Lakewood Creek subdivision in Montgomery used this sort of technique and called it a special area assessment, or ssa. The subdivision experienced record sales because the asking price of the houses appeared to be much lower than nearby subdivisions. That's of course unless you take into account the ssa.

Shortly after the first ssa payment came due there were almost fifty homeowners in default. The village and county are now contemplating on whether or not to foreclose on the assessment liens or just initiate tax sales for the delinquent amounts due.

Village of Montgomery officials have been quoted in local newspapers saying that they'll never consider ssa type financing for any more new subdivisions. It was pretty much a failed experiment.

What went wrong and why is it an appraisal issue?

A number of lenders didn't even know the ssa existed. Some lenders who the ssa confused with the homeowners' association lien.

I've reviewed far too many appraisals that didn't even mention the existence of the ssa. I've heard some appraisers say they ignored the ssa because the first payment wasn't due for a few years after their

appraisal was completed.

Any competent appraiser should have wondered why the builder was apparently selling houses \$20,000-30,000 or so below what they were worth.

Home owners in Lakewood Creek who refinance their property can also end up with a misleading appraisal. If an appraiser chooses comparable sales properties from outside the subdivision, and ignores the ssa, then the appraisal will come in way too high. Now that the subdivision is fully built out, the appraiser should only be using sales comparables from within the same subdivision.

All of these problems could have been avoided if appraisers followed USPAP and Fannie Mae's guidelines. Fannie's guidelines require that the appraiser choose some comparables from outside of the subject property's subdivision when doing an appraisal in a brand new subdivision. In this situation, it would have forced an appraiser to analyze why the subject property was *apparently* selling for a much lower price than what was otherwise indicated by sales in competing subdivisions. Note that this is a different appraisal procedure than what is recommended above for a mature subdivision.

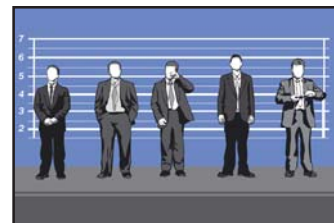
USPAP requires appraisers to have geographic competency. Far too many appraisers are working way outside of their normal market area. Some appraisers also consider it a hassle to have to drive back to the subject's neighborhood for more data simply because their office is too far away. They try to get away with a "one-trip" appraisal and don't have the time to do the necessary research.

If you have clients in an area that is subject to an ssa then it might be a good idea to make sure any appraisals performed on their property were not misleading.

How mortgage fraud can affect your clients

The FBI recently reported that Illinois is one of the top ten *Hot Spots* for mortgage fraud. They also indicated that mortgage industry sources reported over 12,000 cases, nationwide, of suspicious activity in the past nine months alone.

A major problem in the appraisal profession is pressure from mortgage brokers to "hit the number" so that they can originate a loan based upon an inflated appraisal. It's created a culture of appraisers who are pretty good at hitting a target value for a client in order to keep a constant flow of business coming their way. Of course this sort of activity is illegal, but prevalent nonetheless.



A situation that we see all too frequently occurs with homeowners who have very little equity in their house. Most mortgage brokers will "roll their fees into the loan" so that the homeowner doesn't need to bring any money to closing. The subject property has to keep over-appraising by a greater amount every time the homeowner wishes to refinance again. This requires bolder illegal actions by the unethical appraiser. The homeowner might not ever be aware of their precarious equity position unless an honest appraiser enters into the mix somewhere along the line.

The budget crisis in Illinois has really affected the ability of the Division of Professional Regulation to do any sort of meaningful enforcement against appraisers. Now that interest rates are rising, many appraisers find themselves in search of new
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New Fannie Mae appraisal forms no longer appropriate for forensic purposes

by Patrick J. Butler

Fannie Mae introduced eleven new appraisal forms whose use became effective as of November 1st of 2005. The actual date that appears on the new forms is the approval date of March, 2005.



Fannie included language in a lot of places on the new forms that indicates their desire that the forms be used only for lending purposes. This pretty much makes the forms useless for any other purpose.

The lending industry is the source of the majority of appraisal assignments for the typical residential appraiser. Many appraisers are comfortable with doing this sort of work and pretty much assume that Fannie Mae has included whatever required language is needed so that their appraisals comply with USPAP. They never take the time to study the actual language on the forms or certification pages.

Any appraisers doing litigation type work will need to have the ability to create their own forms with custom certification language. This shouldn't be a problem for experienced appraisers, but 'form filling' type of appraisers might find themselves in a bind when attempting to complete a litigation type assignment on the new forms.

Some of the older appraisal forms are actually more appropriate for litigation type work, but even their certification pages still need to be modified. If you are ordering any appraisals after November 1st of 2005 then you'll need to be especially wary of any appraisals supplied to you on the new Fannie Mae forms. It's almost certain that the appraiser will have supplied

you with a misleading appraisal.

How do these forms affect your real estate closings?

The new forms require the appraiser to place more emphasis on reporting the true condition of the subject property.

Fannie has made it very clear that they will hold appraisers liable for any losses incurred as a result of misleading appraisals. Most appraisers think that foreclosures occur because the lender didn't properly underwrite the borrower, but that point was apparently lost on Fannie Mae.



The revised forms include check boxes that allow the appraiser to call

for any needed property inspections. Expect a lot more of your transactions to be delayed while waiting for these inspections to occur. Additionally, your sellers might incur additional expenses, per the language in their contracts, with respect to required repairs.

Finally, Fannie revised all of their forms so that appraisers can no longer make any assumptions in their appraisals. This forces appraisers to be more liberal in calling for needed inspections for marginal type property issues. In the past, an appraiser could just assume a foundation crack was OK. Now, that same appraiser will likely call for an inspection. Fannie Mae's appraisal inspection requirements still aren't as onerous as the ones from HUD, but they're getting close.

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clients. Unethical appraisers are more likely to inflate their appraisals to a greater extent in order to maintain their relationship with their clients, and they are pretty much getting away with it.

What does this mean for your practice?

If you are doing any sort of financial planning on behalf of a client, then make sure that you can trust any appraisals that were used as the basis for the value of their real estate. Your client may have recently refinanced their house and have a desire to use that appraisal in order to save money. It would be prudent to have that type of appraisal reviewed or double checked against another appraisal ordered specifically for your purpose. We've seen inflated refinance appraisals used in divorce proceedings and for estate planning purposes.

Make sure you are ordering appraisals from ethical appraisers, especially if you need to use that appraiser as an expert. Many appraisers who just do mortgage type work don't have the skills necessary to provide appraisals for forensic purposes. They get used to never having their work challenged in the mortgage arena, and find themselves unable to provide a defensible appraisal when it really counts.

Finally, realize that simple appraisal situations may turn complex. You may need an appraisal on a pretty simple house in a tract-home subdivision. You'd naturally expect multiple appraisals to be pretty close in value to each other. Now throw an unethical appraiser into the mix who is used to providing 'targeted values.' Suddenly you find a need to challenge the opposing appraisal in court. Did you hire the right appraiser in the first place, or were you less choosy because this started out as an easy assignment? Consider hiring an experienced appraiser even for the easy ones to prevent this from happening.