

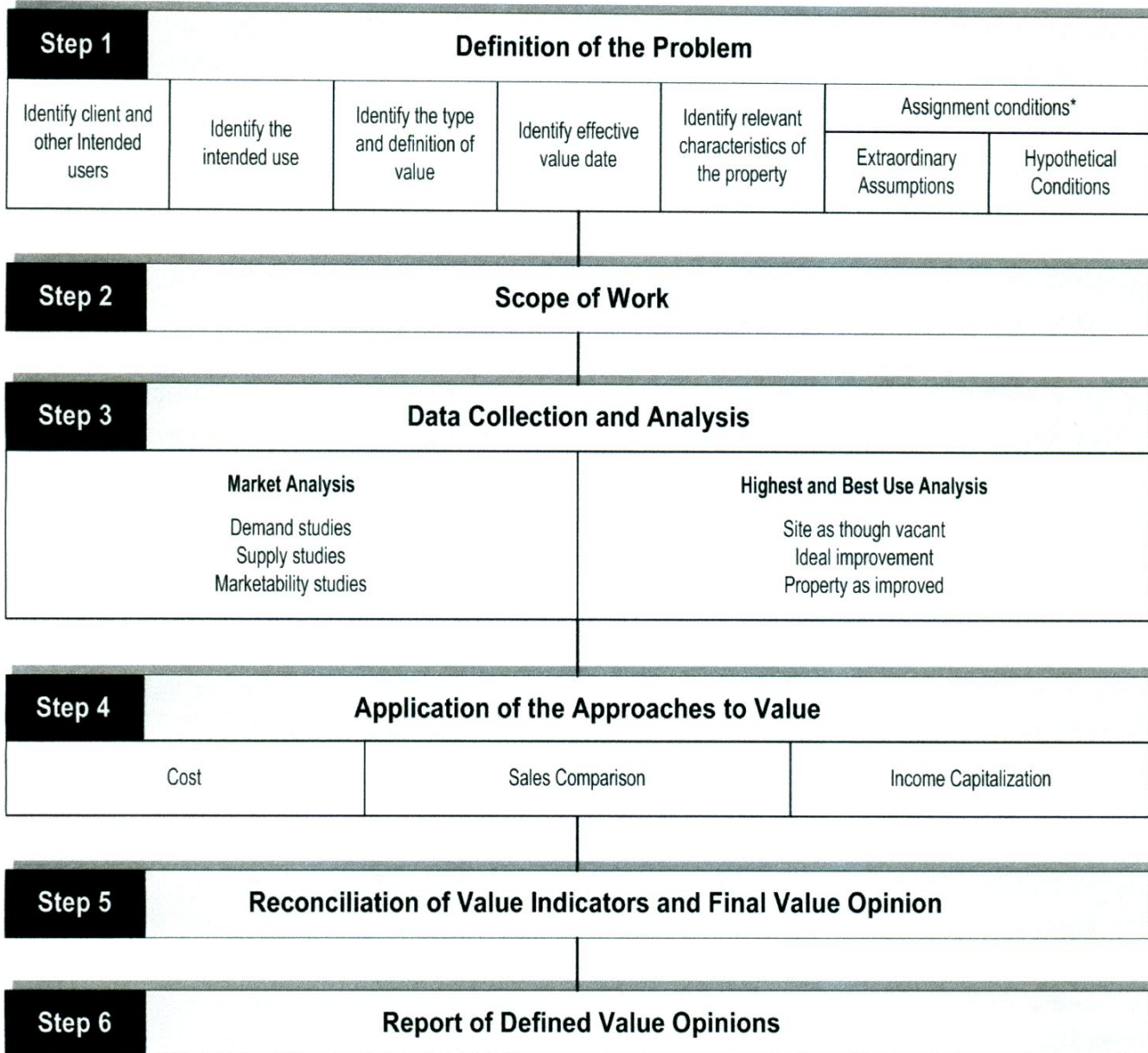
**Massachusetts Community & Banking Council
Appraisal Conversation Agenda
April 19, 2016**

1. Introduction
2. A look at sales statistics for selected Boston neighborhoods
3. The appraisal process
4. AIR & Communication: who can speak with the appraiser?
4. Suggestions of ways to assist the appraiser
5. What can be done if the value does not support the sales price?

Activity 2013 – 2015

Selected Boston Neighborhoods

| | 2013 | | 2014 | | 2015 | | Total |
|-------------------|-------|--------------|-------|--------------|-------|--------------|-------|
| | Sales | Median Price | Sales | Median Price | Sales | Median Price | |
| DORCHESTER | | | | | | | |
| Single Family | 104 | \$350,000 | 133 | \$380,000 | 127 | \$415,000 | 4778 |
| Condo | 309 | \$295,000 | 378 | \$320,000 | 336 | \$358,500 | 4660 |
| Multi-Fam | 238 | \$425,000 | 228 | \$483,750 | 228 | \$536,500 | 9617 |
| MATTAPAN | | | | | | | |
| Single Family | 20 | \$250,000 | 14 | \$252,000 | 26 | \$297,000 | 1816 |
| Condo | 11 | \$115,000 | 7 | \$116,000 | 5 | \$190,000 | 275 |
| Multi-Fam | 31 | \$376,000 | 27 | \$390,000 | 30 | \$447,500 | 1789 |
| ROXBURY | | | | | | | |
| Single Family | 17 | \$290,000 | 12 | \$454,000 | 14 | \$381,000 | 1193 |
| Condo | 24 | \$250,000 | 29 | \$285,000 | 34 | \$362,000 | 2030 |
| Multi-Fam | 26 | \$357,000 | 24 | \$494,000 | 33 | \$575,000 | 2732 |



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April 19, 2016

- 1) **Introductions**
- 2) **The Appraisal Process**
 - a. Appraiser selection
 - b. Appraiser compensation
- 3) **Assignment is received**
 - a. Initial research is conducted
 - i. Google Earth
 - ii. Assessor's records
 - iii. Data sources
 - iv. MLS
 - v. The Warren Group
 - vi. Appraiser's own files
 - b. Neighborhood characteristics
 - c. Property inspection
 - d. Approaches to value
 - i. Cost
 - ii. Income
 - iii. Sales comparison
 - e. Analyze the data
 - i. Comparable sales
 - ii. Under agreements
 - iii. Rent comparables
 - f. Reconcile the analysis
 - g. Opinion of value

Fannie Mae's Definition of Market Value: Market value is the most probable price that 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:

- buyer and seller are typically motivated;
- both parties are well informed or well advised, and each acting in what he or she considers his/her own best interest;
- a reasonable time is allowed for exposure in the open market;
- payment is made in terms of cash in U.S. dollars or in terms of financial arrangements comparable thereto; and
- 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.

Note: Adjustments to the comparables must be made for special or creative financing or sales concessions. No adjustments are necessary for those costs that are normally paid by sellers as a result of tradition or law in a market area; these costs are readily identifiable because the seller pays these costs in virtually all sales transactions. Special or creative financing adjustments can be made to the comparable property by comparisons to financing terms offered by a third-party institutional lender that is not already involved in the property or transaction. Any adjustment should not be calculated on a mechanical dollar for dollar cost of the financing or concession, but the dollar amount of any adjustment should approximate the market's reaction to the financing or concessions based on the appraiser's judgment.

Appraiser Independence

Conversations Between Realtors and Appraisers

Be your client's proponent.
Inform your appraiser
about...

MARKET

What do you see
happening in the market?

What factors are
driving sales?

Anything unique about
the neighborhood?

How do distressed
sales impact prices?

BACKGROUND

What helped you
establish the list price?

Any potential comps
you would like to share?

Provide a list of updates
to the appraiser.

ACTIVITY

How many offers did
you receive?

What were the price
levels of the offers?

Why did you lower or
raise the price?

What attracted the
buyers to your listing?

...but don't advocate
for a specific value.



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The Association for Real Estate Valuation Professionals

REAL ESTATE VALUATION PROFESSIONALS

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COMMON MYTHS ABOUT THE HOME BUYING PROCESS



LENDERS

MYTH A LENDER AND AN APPRAISER CANNOT COMMUNICATE BEFORE, DURING, OR AFTER AN APPRAISAL IS COMPLETE.

FACT Not only are lenders permitted to talk to appraisers, they must. Communication is essential for the exchange of appropriate information including the intended use of the appraisal, the scope of work necessary for credit assignment results, and more.

MYTH NOTHING CAN BE DONE IF A LENDER HAS CONCERNS OR QUESTIONS REGARDING A COMPLETED APPRAISAL.

FACT If there are questions or concerns with an appraisal, there are concrete steps lenders can take, like submit additional comps for the appraiser to consider, request the appraiser correct errors in the appraisal report, and ask the appraiser to provide further detail to explain his/her conclusion.

MYTH LENDERS MUST USE AN APPRAISAL MANAGEMENT COMPANY (AMC) TO ORDER AN APPRAISAL.

FACT Lenders are entitled to engage an appraiser directly. However, to avoid any potential undue influence on the appraiser, certain safeguards are required (e.g., in most cases the person at the lending institution selecting the appraiser cannot be the same person approving the loan).

MYTH AMCs ARE NECESSARY TO ENSURE THAT APPRAISERS AREN'T INFLUENCED BY LENDERS.

FACT Regardless of whether an AMC is used, lenders are not permitted to influence the value of a home, and licensed and certified appraisers are required by law to follow strict guidelines (i.e., the Uniform Standards of Professional Appraisal Practice) that guarantee an unbiased and meaningful analysis of value.



BORROWERS

MYTH AN APPRAISER IS HIRED BY THE BORROWER.

FACT Even though the borrower may be responsible for the cost of an appraisal, appraisers are hired by lenders. Appraisers provide an analysis of the collateral so that lenders understand the value of a property when making the loan decision.

MYTH THE MONEY PUT INTO A HOME TRANSLATES DOLLAR-FOR-DOLLAR INTO A HIGHER APPRAISAL.

FACT The cost put into a home improvement project may very well add value to a home, however, the value of any improvements are based on what the market is willing to pay for them, and may not necessarily correlate to the cost. Not all renovations positively impact property values.

MYTH APPRAISERS SET THE VALUE OF A HOME.

FACT Appraisers don't set the value of a home, nor do they confirm a home's sale price. Their role is to produce a credible opinion of value which reflects the current market.

MYTH APPRAISERS AND HOME INSPECTORS PERFORM THE SAME FUNCTION.

FACT Though both provide crucial information, their roles are very different. An appraiser provides an objective, unbiased analysis so the lender can better understand the value of a property. An inspector is typically hired by the borrower and performs an objective visual examination of the physical structure and systems of a house to ensure the structural integrity of the property.



REAL ESTATE BROKERS

MYTH REAL ESTATE BROKERS ARE PROHIBITED FROM COMMUNICATING WITH APPRAISERS.

FACT Brokers are permitted to communicate with an appraiser and to provide them with additional information as long as the communication is not intended to unduly influence the outcome of the appraisal. The exchange of relevant information—including terms of the sale, relevant comps, and home improvements—can help an appraiser develop a more credible opinion of value.

MYTH NOTHING CAN BE DONE IF A BROKER HAS CONCERNS OR QUESTIONS REGARDING A COMPLETED APPRAISAL.

FACT If there are questions or concerns with an appraisal, there are concrete steps brokers can take through the lender, like submit additional comps for the appraiser to consider, request the appraiser correct errors in the appraisal report, and ask the appraiser to provide further detail to explain his/her conclusion.

MYTH APPRAISERS REQUEST COPIES OF THE PURCHASE AGREEMENT FROM BROKERS SIMPLY SO THEY'LL KNOW HOW MUCH TO APPRAISE THE HOME FOR.

FACT Appraisers are required to review the purchase agreement (if available during the ordinary course of business) to fully understand the terms of the transaction. Appraisers don't simply look at a pending sale price and try to "justify" the transaction. They perform research and analysis to provide their own opinion of value.



HOMEBUILDERS

MYTH HOMEBUILDERS ARE PROHIBITED FROM COMMUNICATING WITH APPRAISERS.

FACT Builders are permitted to communicate with an appraiser and to provide them with additional information as long as the communication is not intended to unduly influence the outcome of the appraisal. The exchange of relevant information—including construction features, details, and upgrades, as well as relevant comps—can help an appraiser develop a more credible opinion of value.

MYTH NOTHING CAN BE DONE IF A BUILDER HAS CONCERNS OR QUESTIONS REGARDING A COMPLETED APPRAISAL.

FACT If there are questions or concerns with an appraisal, there are concrete steps builders can take through the lender, like submit additional comps for the appraiser to consider, request the appraiser correct errors in the appraisal report, and ask the appraiser to provide further detail to explain his/her conclusion.

MYTH APPRAISERS ONLY RELY ON COMPARABLE SALES AND DO NOT TAKE INTO ACCOUNT THE COST TO BUILD A HOME.

FACT Appraisers do need to consider the cost to build a home and, at times, must perform a cost approach to deliver a credible appraisal. However, because cost does not always equal value, appraisers cannot simply look at what it costs to build a home to provide an opinion of value. They must perform research and analysis to determine what the marketplace is willing to pay.



THE APPRAISAL FOUNDATION
Authorized by Congress as the Source of Appraisal
Standards and Appraiser Qualifications

www.appraisalfoundation.org