Spring 2011 Issue 3

# **FHA APPRAISER**



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Welcome to the third issue of the Federal Housing Administration Appraiser Roster Newsletter. We hope you will find it informative.

#### **UNIFORM APPRAISAL DATASET (UAD)**

In an effort to enhance appraisal data quality and consistency and to promote the collection of electronic appraisal data. Fannie Mae and Freddie Mac (the Government Sponsored Enterprises or GSEs) have developed the Uniform Appraisal Dataset (UAD). The UAD modifies 4 of the industry standard appraisal reporting forms: the URAR, the Individual Condominium Unit Report, the Exterior Only

Residential Inspection Report and the Exterior Only Inspection Individual Condominium Unit Report. Fannie Mae and Freddie Mac will require appraisals reported on one of these four appraisal reporting forms to be in compliance with the UAD for all conventional loans delivered to the GSEs on or after September 1, 2011. The UAD is part of the Uniform Mortgage Data Program (UMDP) which also includes the

Uniform Loan Delivery Dataset (ULDD) and the Uniform Collateral Data Portal (UCDP). As the ULDD and the UCDP are for submission and electronic collection of appraisal and loan data related to conventional loans delivered to the GSEs, this article will only address the UAD which will directly impact FHA Roster Appraisers. When performing appraisals reported on the URAR

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# FHA SPOTLIGHT - SELECTION AND VERIFICATION OF COMPARABLE SALES

The last issue featured the second of a two part series on FHA Inspection Protocols as related to the subject property. This issue will address another critical component of any appraisal, the selection and verification of comparable sales. As most appraisals of single family residential properties rely exclusively on the Sales Comparison Approach to value, the selection and verification of comparable sale properties is fundamental

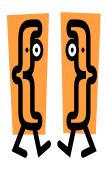
to a credible and accurate appraisal, At minimum, comparable sale selection should be based on properties having the same or similar locational and physical characteristics as the subject property. Among other criteria, physical characteristics include style, age, size, utility, condition, amenity level and other dominant features. Comparable sale selection should never be solely based on sales price. Comparable

sales must be both comparable as well as competitive to the subject property. Comparable properties that are similar in other respects but do not appeal to the same market segment as the subject property should not be considered comparable properties. Under ideal circumstances, a comparable sale property would compete directly with the subject property in terms of both locational and physical attributes. If the available comparable

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Always bracket the subject with the comparable sales.



#### Selection and Verification of Comparable Sales, cont'd

sales are questionable in terms of being both competitive and comparable, appraisers should consider using a larger pool of sales. In selecting comparable sales, appraisers should use the bracketing method. The Dictionary of Real Estate Appraisal, Fifth Edition, Appraisal Institute, defines bracketing as "a process in which an appraiser determines a probable range of values for a property by applying comparative analysis techniques to data such as a group of sales. The array of comparable sales may be divided into three groups- those superior to the subject, those similar to the subject and those inferior to the subject. The sale price reflected by the sales requiring downward adjustments and those requiring upward adjustment refine the probable range of values for the subject and identify a value range (i.e., a bracket) in which the final value opinion will fall." It is advisable to bracket sales using multiple characteristics such as size, condition, location and other dominant features including obsolescence, both internal and external. If bracketing is not

possible, the appraiser must explain why.

For properties in established subdivisions or for units within established condominium projects or PUDs, the appraiser should use comparable sales from within the same subdivision or project. Resale activity from the same subdivision or project should be the best indicator of value. If comparable sales from outside the subject subdivision or project are used, an explanation must be provided. In appraising properties located in new subdivisions or projects, the appraiser must compare the subject property to other properties in its general market area as well as to properties within the subject subdivision or project. This comparison should help demonstrate market acceptance of new developments and properties within them. In selecting comparable sales, the appraiser should keep in mind that resale activity within the same subdivision or project is preferable to sales from outside as long as the developer or builder of the subject property is not involved in the transaction.

Comparable sales should not exceed 6 months from date of sale and, in no cases, may exceed 1 year from date of sale in the first three comparable sale positions. Older comparable sales can be included (after the first three) to demonstrate time adjustments or market acceptance of other features or conditions.

The appraiser must verify comparable sales. MLS by itself is not considered a verification source. Contacting someone with first-hand knowledge of the transaction (listing or selling agent, buyer, seller, etc.) is the preferred method of verification. MLS data may be incomplete and can sometimes be misleading. Verification with a knowledgeable 3rd party is particularly important in cases where sales concessions were made or the condition of the home influenced the contract purchase price. The information provided should permit the reader of the report to replicate the data from the sources cited. A single verification source is permitted if recognized as an industry standard.

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#### **UAD Cont'd from 1**

and the individual condominium unit report form, FHA Roster Appraisers will be required to submit reports which are UAD compliant. FHA does not permit the use of either of the two exterior only inspection reporting forms.

The UAD will standardize the definitions of select key appraisal data elements such as property condition and quality of construction as well as the describing the view which will prevent appraisers from inputting descriptions such as average in the field for view in the Site Section or average quality in the Improvements Section of the report. UAD compliant appraisal

reporting forms require the following information that was never explicitly required before:

- 1. Days on market for subject property and the comparable sales
- Specifically defined condition and quality ratings
- 3. Status of improvements to kitchen and bathrooms
- 4. Sale type for the subject property and each comparable sale

Appraisal report software form providers have incorporated the UAD requirements into their form software and UAD compliant appraisal reporting forms will be available on an industry wide basis this Spring.

FHA Roster appraisers can become familiar with the UAD field specific requirements detailed in Appendix D of the Uniform Mortgage Data Program by visiting either of the GSEs' web sites: Fannie Mae or Freddie Mac

FHA plans to release guidance concerning the use of the UAD appraisal reporting forms later this year.



#### **ZONING AND HIGHEST AND BEST USE**

Compliance with Valuation Protocol: Determining Zoning and Highest and Best Use per Appendix D of Handbook 4150.2 appears to be simple, quick and easy. Why do appraisers get it wrong? Zoning ordinances are public documents and the jurisdiction must make them available to the public. Jurisdictions make zoning ordinances and mapping available through a variety of sources, including books, electronic files and websites. Regardless of the source, the appraiser is required to own or have access to the current zoning ordinance and related mapping for the jurisdictions in which they appraise and profess to have a geographic competence in.

How many appraisals are completed where the appraiser reports the wrong zoning, types in the land use code or has a "favorite", for example, R instead of A1 or DR 5.5 (actual zoning)? Each of these errors results in a statement that is untrue and results in a misleading report. Next the appraiser determines if the subject property is in compliance with zoning. If the zoning classification reported is not accurate, and/or if the appraiser has not read the zoning ordinance to know if the subject property is in compliance, checking "legal" may result in an untrue statement and a misleading report.

Then the appraiser determines if the Highest and Best Use of the subject is the current use. If the zoning reported is not accurate and/or if the property does not comply with the zoning, this results in another untrue statement and a misleading report. If the current use is not legal and the property is not eligible for FHA mortgage insurance but the appraiser does not properly research, analyze and accurately report the actual zoning and whether or not the subject conforms, then the appraiser has incurred liability. FHA reminds appraisers to always perform the necessary due diligence to produce a credible and accurate appraisal.

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# FOR SALE

#### FINDINGS FROM ACTUAL FHA APPRAISAL REVIEWS

The following sanctions/actions are the results of actual appraisal reviews conducted by the Santa Ana Homeownership Center (HOC).

Failure to Perform an Accurate Appraisal, Failure to Maintain Appraisal Credentials in Good Standing and other FHA reporting requirement errors

In FHA Case No. xxxxxxxxxx, the appraisal indicated that two of the three comparable sales had no basement and positive or upward adjustments were made to each of the sales as compared to the subject. According to available public records, these two comparable sales featured basements and, in one sale, the basement was finished. The appraisal reported that a sales concession was paid for Comparable Sale No. 1 but failed to either make a market based adjustment

to the sale or provide a discussion as to why no adjustment was made. Additionally, the appraisal indicated that no sales concessions were noted for Comparable Sales Nos. 2 and 3 and should have clearly stated that either no sales concessions existed or that the appraiser was unable to determine such. Furthermore, the appraisal only included MLS photos of comparable sales as exhibits and did not include photos of the comparable sales taken by the appraiser as required by FHA appraisal reporting requirements. In Case No. xxx-xxxxxxxm the same appraiser noted roof conditions that may be indicative of a faulty or leaky roof but made the appraisal "as is" rather

than subject to further inspection by a qualified third party. Based upon a review of these appraisals as well as a review of a third appraisal in which the appraiser failed to maintain good standing with the state licensing board and performed an appraisal with an expired appraisal credential, the Santa Ana HOC recommended removal of the appraiser from the Roster for a period of six months and required completion of 15 hours of continuing education in USPAP and 7 hours of continuing education in the preparation of FHA appraisals. The proposed removal was appealed by the appraiser but was denied by the HOC.

#### Failure to Perform an Accurate Appraisal Report and Select Suitable Comparable Sales

In FHA Case No. xxxxxxxxxx, the appraisal made no mention of valley and canyon views enjoyed by one comparable sale and an adjustment of \$25,000 was made to another comparable sale to reflect \$220,000 invested in upgrades to the home without an explanation or support for the discounting the contributory value of the upgrades.

Comparable Sale No. 3 is located over 1 mile from subject and no support or explanation is provided as to why other equally similar comparable sales in closer proximity to the subject were not selected. The Santa Ana HOC issued an education sanction against the appraiser, requiring

completion of 29 hours of continuing education (15 hours of USPAP, 7 hours in the preparation of FHA appraisals and 7 hours of sales comparison analysis). The appraiser failed to complete the continuing education hours within the allotted time period and the Homeownership Center is proposing to remove the appraiser from the Roster for a period of one year. Final disposition on this case is pending.

FHA and your state board.

#### **SPRING TUNE UP – BASIC MATH QUIZ FOR 2-4 UNIT PROPERTIES**

In recent months FHA reviewers have noted the poor quality of 2-4 unit appraisals, including an appraisal with the following reconciliation of the income approach: "The appraiser used the current rent of the subject property and the indicated value by the sales comparison approach to calculate the gross rent multiplier. The gross rent multiplier times the current rent of the subject property establishes the indicated value by the income approach, which supports the final value conclusion." Scary, isn't it?

Following are a few refresher exercises to assist appraisers in completing the income approach on 2-4 unit appraisals. Try these and see how you do.

1.	An appraiser's research on a 2 unit small residential income property revealed only 2 sales which were rented at the time of the sale. Comparable number one is a 3 unit property that sold for \$345,000 and was rented at the time of sale for \$1,800 Comparable number two is a 2 unit property that sold for \$265,000 and was rented at the time of sale for \$1,200
	What is the GRM for each comparable sale? What GRM is best indicated by the market?
	If the subject property has an indicated market rent of \$1,350, what is the indicated value of the subject by the income approach?
2.	An appraiser's research on a 3 unit small residential income property revealed 9 sales that were rented at the time of the inspection.
•	2 unit property sold for \$175,000, one unit rented for \$800, market rent for the second is \$900.  3 unit property sold for \$750,000 and was rented for \$3,200  3 unit property sold for \$320,000 and was rented for \$2,000  2 unit property sold for \$210,000 and was rented for \$1,500  4 unit property sold for \$420,000 and was rented for \$2,200  3 unit property sold for \$400,000 and was rented for \$1,900  3 unit property sold for \$370,000 and was rented for \$2,100
What is the GRM for each sale?	
Which sales are most comparable to the subject property?	
What is the most appropriate GRM for the subject?	
If the subject currently rents for \$2,100 a month, what is the value indicated by the sales comparison approach?	

If these were easy, have a nice day. If not, get out your text books and brush up. Competence is required by USPAP,

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Answers to Houses and Values and Sites, Oh My

