Appraisal Issues in the Current Real Estate Market

Growing numbers of loan officers and real-estate agents say appraiser reluctance to report recent appreciation in local home prices is becoming a significant complication in sales transactions.

Are some appraisers failing to see the improvements in real-estate values in local markets that have recently bottomed out and turned positive?

When multiple bids push a house price thousands of dollars above what the seller is asking — not unusual in neighborhoods where demand is particularly robust — are appraisers still coming in with values below the agreed-upon contract number?

Yes. Growing numbers of loan officers and real-estate agents say appraiser reluctance to report local appreciation is becoming a significant complication in sales transactions.

In a new poll of its members, the National Association of Realtors found that 33 percent of them reported appraisal problems during the month of May.

Moe Veissi, president of the association, said poor appraising "in markets that are no longer in decline is the single most important" valuation obstacle "to seeing a real recovery."

Even appraisal experts concede this is a troubling issue. Frank Gregoire, former chairman of the Florida Real Estate Appraisal Board and an appraiser in St. Petersburg, says that many appraisers are reluctant to make the upward adjustments they know to be justified by recent appreciation trends because they fear criticism they are potentially overvaluing the property — exposing lender clients to costly "buyback" demands by Fannie Mae or Freddie Mac, or to future litigation.

"Even if they have the (local) data to support" adjustments reflecting positive trends that affect value — pending home sales and new listings of similar houses at higher prices, for example — "they take the easy way out" and go with a lower valuation so as not to upset hyper-cautious reviewers at the appraisal-management companies that now control the bulk of all home real-estate appraisal assignments, Gregoire said in an interview.

One appraiser in his area recently assembled strong supporting data to make an upward adjustment to a valuation based on recent sales activity on comparable houses.

When he delivered the report to the appraisal-management company that hired him, an official of the firm sent it back immediately with instructions to "revisit" the upward adjustment, i.e., get rid of it.

Joseph Petrowsky, owner of Right Trac Financial Group, a Manchester, Conn.-based mortgage company, says too often valuations in upward-trending markets "aren't catching up with the new values, let alone a property that was involved in a bidding war."

He cites a series of recent loan applications where the appraisal was thousands of dollars below the agreed-upon final contract price, endangering or blowing the deals.

In one case, the buyer signed the contract at $312,500 but the appraisal came in at just $280,000, despite readily available evidence that the local market has experienced appreciation in recent months.

"Appraisers are scared to death" to report rising values, said Petrowsky. "I talk to them, and they are beside themselves. They feel they have to (deliver) appraisals they know should be higher."

Much worse, though, is the impact on sellers and buyers.

When an appraisal comes in much lower than the mutually agreed contract price, the buyers typically need to revise their loan request by increasing the down payment — which may not be feasible — or renegotiating the contract price with the unhappy seller.

Dennis Smith, a co-owner of Stratis Financial in Huntington Beach, Calif., says the problem is magnified when the appraiser assigned by the management company travels from 30 or 40 miles away, and has no insights into neighborhood appreciation trends that may be relatively recent.

He cited an example where a client saw a bidding war — four offers that pushed the contract price from the listed $350,000 to $375,000 — but the out-of-town appraiser would not take this into consideration in arriving at the final valuation.

Sara. Stephens, president of the Appraisal Institute, the industry's largest association, says it is every appraiser's professional duty to arrive at valuations that "reflect the market," including recent changes — whether positive or negative — if they can be verified with authoritative and accurate data.

How can buyers and sellers guard against the see-no-appreciation problem?

Tops on the list: Make sure the real-estate agents on both sides of your transaction have assembled accurate data on "comparable" sales or pending sales that demonstrate how the market has changed in the past six months or less.

Then make sure the appraiser sees the data.

Your purchase or sale doesn't have to be jeopardized simply because the appraiser doesn't have, or chooses not to collect, all the relevant recent facts.