

National Association of Home Builders

Builders Guide to Appraisals

Obtaining Accurate Valuations on New Homes

Wednesday, August 4, 2:00 – 3:00 pm EDT

Brought to you by the Business Management & Information
Technology and Housing Finance Committees

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Builders Guide to Appraisals

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Major changes have occurred in appraisal standards and practices in the wake of housing and financial market turmoil.

These shifts present major challenges to home builders in financing and selling their homes.

This program will provide information on the new appraisal landscape and help builders obtain more accurate appraisals.

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Today's Agenda

- I. Overview of Appraisal Problems and Issues Encountered by Builders
- II. Recent Changes in Appraisal Standards and Practices
 - Impact of Home Valuation Code of Conduct (HVCC)
- III. What are the Rules and Standards and How Should the Appraisal System Work
- IV. What Can / Should a Builder Do
- V. Actions for Builders if the Appraisal was Conducted Improperly or Contains Errors
- VI. Questions and Open Discussion

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I. Overview of Appraisal Problems and Issues Encountered by Builders

- What is Market Value?
- Ultra conservative valuations
- Difficulty in getting appropriate comparables
- Use of distressed sales as comps
- Increased difficulty in getting information to appraisers
- Unilateral reductions in appraised value by lenders

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II. Recent Changes in Appraisal Standards and Practices

What problems are the appraisers seeing?

- Use of inexperienced and / or under qualified appraisers
- Excessive reliance on AMC's.
- Inadequate time for completion of appraisals
- Selection and use of inappropriate comparable sales
- Inadequate communication with appraisers

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III What are the Rules and Standards and How Should the Appraisal System Work?

- What should the builder expect from the appraiser and appraisal process.?
 - Regardless of Lender guidelines, the appraiser should provide an opinion of market value.
 - Full communication and acceptance of builder's knowledge of the market.
 - Builder must understand the relationship between the appraiser and the appraiser's client. Is the client a local, regional, national bank?

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- Appraiser selection criteria and qualifications for appraising new homes.
- The appraiser selection criteria is based solely on lender guidelines
 - Builder should demand lenders utilize qualified, designated appraisers
 - Your first concern should be the lender and their process of selecting appraisers.
- Most lenders require, one sale from the builder, one from a competing builder, and/or a re-sale from the subject's neighborhood.
- Lender could require having two to three sales within 90 days in addition to one pending sale and one listing.
- Cost plus transactions/sales not allowed as comparables by Fannie Mae and Freddie Mac.

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- Use of AMCs are not required
- Many local/regional bankers are managing the appraisal function in-house
- Be proactive and understand lender's process in ordering appraisals and approving appraisers.
 - Appraiser's cannot be chosen by someone with a financial interest
 - No requirement that appraisers must be chosen randomly.
 - The appraiser can be selected by the lender based on the appraiser's experience qualification.

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- Communication allowed (Lenders and Builders CAN communicate with appraisers)

- Information builders should provide.
 - Market and absorption information
 - Sales Information
 - Builders biggest mistake is they hide data. Provide all relevant data.
 - Provide appraiser with specifications of the property.
 - Details or what and why material were chosen.
 - What is the buyers reactions to products selected.

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- Fannie Mae specific appraisal guidance regarding new homes
- Updates to the seller guide on June 30th from Fannie Mae provided more specific guidance in the valuation process
 - New sources of comparable market data and comparable sales.
 - Allowable and desired communication
 - Use of distressed sales
 - Appraiser selection criteria
- Recent letter from Freddie Mac to NAHB is further indication GSEs recognize that quality appraisals and communication with market participants is vital to the process.

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Oversight and Enforcement

The Financial Reform legislation (H.R. 4173) includes several important reforms

- Appraisers are to be paid customary and reasonable fees – absent the involvement of AMCs
- Appraisal independence standard
- Resources for oversight and enforcement
- Encouragement to hire appraisers based on competency (designations, education achieved, referrals from clients, etc.)

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IV What Can / Should a Builder Do?

- Start by helping the lender
 - Candid discussions on project and market
- Request the appropriate appraiser
 - Experienced in the area
 - Qualified to appraise new construction
 - Aware of green building values
 - Willing to meet the builder to obtain house/project information
- Communicate with the appraiser
 - Provide all appropriate comps
 - Be available for on-site face-to-face meetings
 - Develop a check list for builder staff on information to provide

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V **Actions for Builders if the Appraisal was Conducted Improperly or Contains Errors?**

➤ How should a builder challenge the use of an unqualified appraiser?

- Best defense is to encourage borrower to select a lender who follows best policies in appraiser selection.
- Nothing prohibits a lender from ordering a second appraisal if the first appraisal appears flawed.

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- How should a builder challenge the use of inappropriate comps?
 - Provide best and all relevant sales/data before appraisal is completed.
 - Keep a record of data provided to appraiser. (email, notes in calendar)
 - Communicate with appraiser first.
 - Understand appraisers challenges so you can efficiently communicate.
 - Build a relationship with the appraiser and appraisal community.
 - Be willing to engage the appraiser to assist you in your efforts.

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- How can the builder respond to unilateral adjustments of value by the lender?
 - Fannie Mae released new guidance stating a lender cannot at it's own discretion change an appraiser's value.

- How can the builder obtain corrections in factual appraisal errors?
 - Contact the lender with concerns
 - Notify lender you will contact the appraiser about errors.
 - Appraiser is bound by their ethics to provide accurate information.

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- Where should a builder direct complaints on incompetent appraisers or inappropriate appraisal practices?
 - Most efficient process is to provide complaints to the lender using incompetent appraisers.
 - Communicate with the appraiser's professional affiliations.
 - All states are required to have an appraisal governing body and a complaint process. Expect the process to be slow.

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VI Questions and Open Discussion

- What questions do you have for our speakers?
- To submit a question, use the “Ask Staff A Question” menu item in the lower right-hand part of your screen.
- Please send in case studies with specifics on appraisal problems.

Send to appraisals@nahb.org

Audience Satisfaction Poll

Thank you very much for taking part in our program.

In the next couple of days you will receive an email survey. We'd like to ask you to answer several brief questions about today's discussion.

Your input is very important to us and allows us to offer high quality products and timely information.



We are grateful to **Builder Partnerships** for its generous support of NAHB's programs.

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Upcoming *Builder Partnerships* webinars

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- Economic Overview – Life After the Tax Credit
Led by Charles C. Shinn, Jr., PhD, The Shinn Group
 - August 6th at 11 AM Eastern
- Working With Banks
Led by Jim Weigel, Shinn Consulting
 - August 13th at 11 AM Eastern
- Effective Estimating Techniques
Led by Charles C. Shinn, Jr., PhD, The Shinn Group
 - August 20th at 11 AM Eastern
- Web Strategy: Open Forum
Led by: Brad Bombardiere, Shinn Consulting
 - August 27th at 2 PM Eastern
- Purchasing Strategies
Led by Charles C. Shinn, Jr., PhD, The Shinn Group
 - September 10th at 11 AM Eastern

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Recommended *Builder Partnerships* On-demand Sessions

- **Creative Financing: Options and Ideas (Parts I and II)**
Led by Jim Weigel, Shinn Consulting
- **Key Financial Indicators to Communicate to Your Investors and Lenders**
Led by Jim Weigel and Jeff Baldwin, Shinn Consulting
- **Planning for Profitability, Then Achieving It!**
Led by Charles C. Shinn, Jr., PhD, The Shinn Group
- **Improve Profits by 2 – 10% by Increasing Efficiencies and Cutting Costs**
Led by Charles C. Shinn, Jr., PhD, The Shinn Group
- **Finding Opportunities in a Changing Market**
Led by Charles C. Shinn, Jr., PhD, The Shinn Group and Boyce Thompson, BUILDER Magazine

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For more information

NAHB Housing Finance Committee

www.nahb.org/housingfinancecommittee

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A link to a recording of the program will be available shortly at www.nahb.org/appraisalsprogram and on www.builderpartnerships.com

Additional NAHB webinar information available at

www.nahb.org/elearning

www.nahb.org/buildingconversations

Contact:

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Thank You

