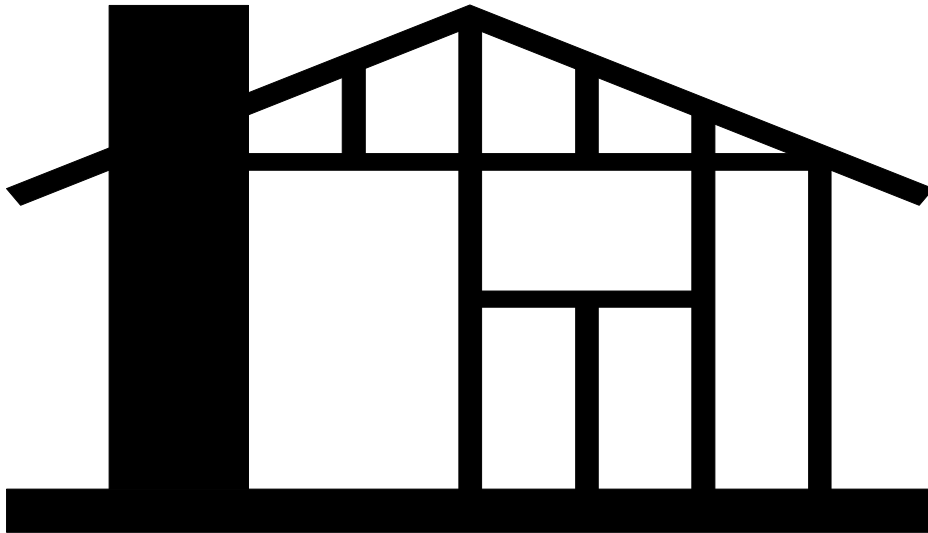


Dissection of a Residential Appraisal Report

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PREFACE

The analysis of a completed appraisal report and the act of completing the appraisal are the same processes; they are just chronologically reversed.

Purpose

In order to properly analysis an appraisal report, the person examining the report should be capable of analyzing the techniques, methods and procedures used by the appraiser. The processes in this manual include the simple checklist to an in-depth analysis of the appraisal principles. It will benefit both the novice and the experienced.

This manual will:

- provide the tools and reasoning to determine the quality of an residential appraisal report and the validity of the value estimate and
- act as a guide for the completion of a residential appraisal report.

Analysis or Review

The word “review” is most often used to describe the analysis of an appraisal report, but the appraisal review as performed in the market place is not typically composed of a detailed analysis of the report. However, because of its common usage, review is used to describe the process of the analysis within this manual. Likewise, the term “reviewer” may be used to identify the person completing the analysis.

Overview

In Section 1 of this guide, the motivations, purposes and elements of the analysis process, as well as the associated problems, are discussed.

Sections 2 and 3 are in-depth analysis of the uniform residential appraisal form (URAR). The URAR was chosen as the example single family appraisal format because of the form’s universal acceptance by lenders, appraisers and other report users. The sections may not be the exact replicate of the current URAR form, but are similar. The form and its attachments are required by several government sponsored agencies such as Fannie Mae and Freddie Mac.

Exercises have been included for reinforcement of the narrative portions of guide. Solutions for the exercises, with supplemental reasoning, have been included for additional exposure to each topic.

The Uniform Residential Appraisal Report

The Uniform Residential Appraisal Report (URAR) was developed for use by the major secondary market participants such as the government sponsored agencies with the assistance of the professional appraisal organizations. The form has a three-fold purpose:

1. To provide a standard form format that contains all the essentials of an acceptable appraisal report.
2. To provide a report that is easy for the user (lender or requester) to review.
3. To provide the information necessary to underwrite the property as security for a specific loan type.

The form provides the uniformity of documentation necessary for the sale of loans into a national secondary market. The popularity of the form in the lending community has led to the acceptance of the form for other uses. The development of computer-assisted form preparation for the URAR has also increased its popularity.

Agency Guidelines

Though they may be discussed, this guide will not dwell on guidelines for the appraisal forms as promoted by the various agencies such as Fannie Mae and Freddie Mac. Those guidelines change frequently and vary by geographic region. It will focus upon appraisal principles that have been in existence for many years and are well accepted by the appraisal industry today. Investor guidelines consistent with good appraisal practice and governmental regulation will be discussed. If appropriate, the section of the USPAP applicable to the subject will be discussed.

Suggestions for Analyzing the URAR

Suggestions will be offered to the reader for ways to improve the review process as well as the preparation of the appraisal form. These suggestions are based upon sound logic and well-established appraisal theory. The exercises in the guide will encourage the reader to think through the problem instead of reducing the review process to the completion of a robotistic checklist.

Section Format

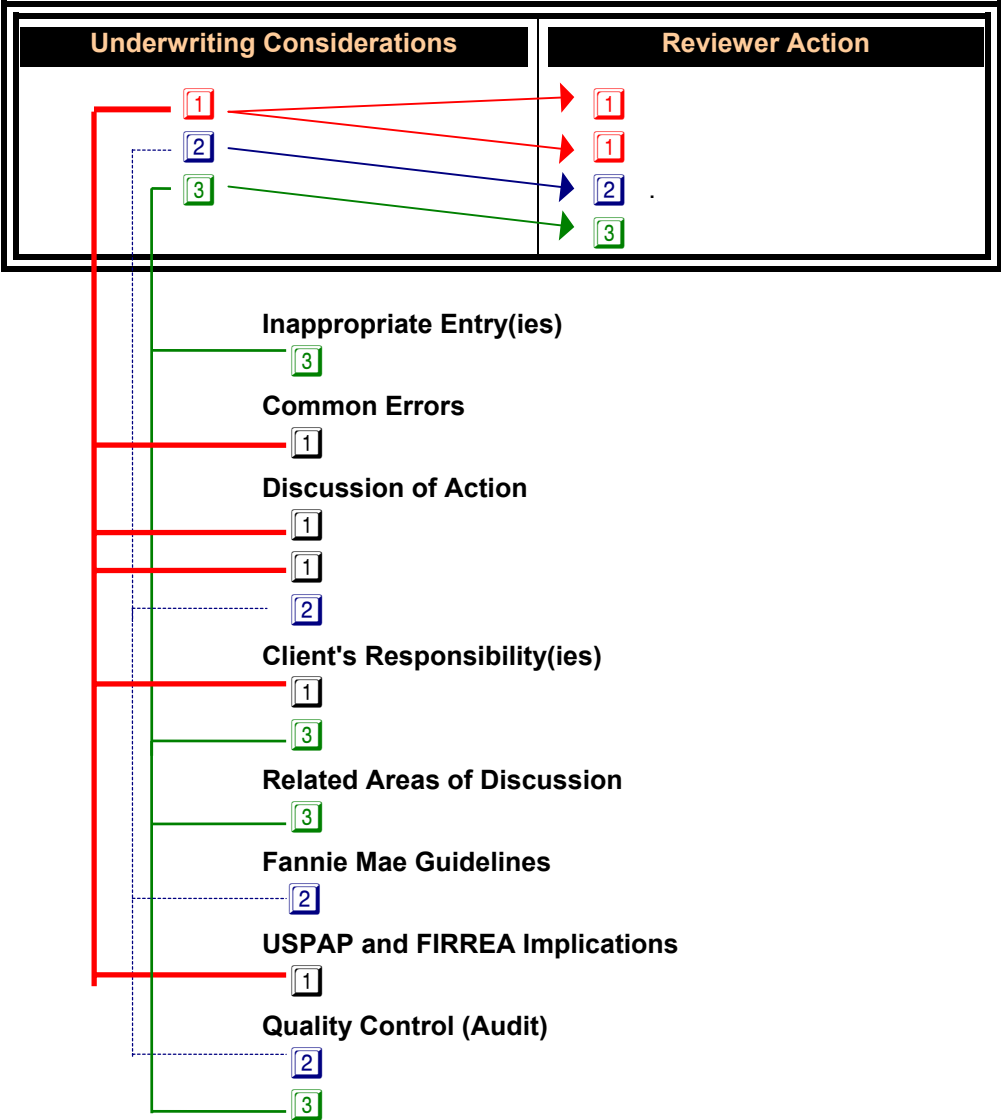
The guide outline follows the appraisal form. Topics will be discussed at the first location they appear in the form though the topic may be related to several areas in the form.

How to use the Manual

A section or band of the appraisal form will be illustrated, then a line by line discussion of that section will follow. To assist the reader in associating related topics, the keyboard symbol **[]** with corresponding numbers will be used. For example, a question under "Underwriting Considerations" may have one or more direct actions identified under "Reviewer Action". A **[]** symbol with a corresponding number will be placed in front of both the question and the action(s) to reflect the relationship.

The query or question listed under the heading of "Underwriting Considerations" will be the key. The entries in the remainder of the section will be indexed to these questions. Each of the questions under "Underwriting Considerations" will be assigned a unique number, however, the number may appear more than once in the other sections.

The following chart indicates the relationship between the sections and topics.



Guide Conventions

Underwriting Considerations

The underwriting considerations will be phrased as one or more question(s). The reviewer will be typically looking for the information prompted by these question(s) during the preliminary review. The item could be just a mandatory "check the box" or a more subjective in-depth question.

Reviewer Action

If the report entry is not satisfactory or needs additional follow-up, recommended action(s) will be listed for the reviewer. The reviewer is anyone who is analyzing the report.

Inappropriate Entry(ies)

These are examples of the most prevalent incorrect or inadequate entries on appraisal reports. These entries may vary from region to region but many will be common throughout the United States.

Common Error(s)

Certain mechanical and conceptual errors that are common in many reports will be listed. These common or typical errors will be discussed under this heading.

Discussion of Action

Discussion of the actions taken or other actions to be considered will be under this heading.

Client's Responsibility(ies)

The client has a responsibility to provide information and instructions to the appraiser. These responsibilities will be itemized under this heading if appropriate.

Related Areas of Discussion

Other sections of the appraisal report may be influenced by entries in the section being analyzed. Those other sections will be discussed under this heading.

Fannie Mae Guidelines

If an appropriate Fannie Mae or Freddie Mac guideline exists, it will be noted under this heading. If no definitive guideline exists, or if a guideline is subject to frequent change, it may not be included. ***The reader should not rely upon this guide as an underwriting tool for the agencies.***

USPAP and FIRREA Implications

If definitive regulations or guidelines exist under the regulatory agencies' rules or under the USPAP, they may be quoted or reviewed under this heading.

Quality Control (Audit)

The audit procedure in a lending institution often occurs after the closing of a transaction. The depth of verification and review may be different than the preliminary review.



This symbol denotes a comment from the guide's developer related to the report section being discussed.



This is an example of a page in the manual. The manual discusses each section of the report and provides the guidance for underwriting, completing or reviewing as appropriate.

ROOMS	Foyer	Living	Dining	Kitchen	Den	Family Rm	Rec. Rm.	Bedrooms	#Baths	Laundry	Other	Area Sq Ft
Basement												
Level 1												
Level 2												
Finished area above grade contains:				Rooms:	Bedroom(s):	Bath(s):	Square Feet of Gross Living Area					

Underwriting Considerations

- 1 Does the number of rooms shown (bedrooms and baths) on each level (excluding the basement) equal the respective total number on the last line?
- 2 Does the square footage on each level (excluding the basement) equal the square footage (GLA) on the last line?
- 3 Does the total square footage (GLA) above grade on the last line match the entry in the "Gross Living Area" box in the sale comparison approach analysis grid on the rear of the form and the footage in the cost approach?
- 4 Does the GLA include any below grade living area?
- 5 Does the GLA include any living area that is inconsistent with the main GLA. (Attic, Converted Garage, MIL¹⁵ Quarters, New Additions)

Reviewer Action

- 1 Check to see if the appraiser has excluded the laundry and foyer from the total count. It is a generally accepted procedure to exclude these two rooms from the total room count.
 - 1 2 3 If the math is incorrect, determine if the value estimate will be affected, or if a reader will be misled by the entries. If necessary, have the appraiser correct the report in writing.
 - 4 Review the comparables to see if they all have finished basements – similar in **size** and quality to the subject.
 - 5 Review the comparables for similar footage.
-
-

Inappropriate Entry(ies)

- 1 The absence of entries.

Common Error(s)

- 1 2 3 Math errors related to the number of rooms, bedrooms, baths and GLA.
- 1 Rooms, bedrooms, and baths below grade are included in the room totals shown on the last line in the section.
- 4 Finished basement area (or other below grade living area) is added to the GLA above grade.

Discussion of Action

- 1 Bedrooms, kitchens, dining rooms, dens, and family rooms are generally listed as rooms. Local custom may dictate how foyers, laundry rooms and other rooms are counted. The count is not important because classification of rooms is not likely to influence the value estimate or mislead the user-client.
- 1 Generally a full bath contains at least three fixtures. Local custom may describe a bath with a shower but without a tub as a 3/4 bath. This is not universal in all regions.
- 4 5 If the comparables do not have similar footage of the same type and quality, the GLA located in atypical areas should be separated and adjustments made on separate lines in the valuation sections of the report. The classification of atypical GLA may not influence the value significantly,

¹⁵ Mother-in-Law quarters. A second living area similar to an efficiency apartment used by another member of the family as permanent living quarters.

but the public often recognizes atypical space as inferior, regardless of the quality of finish. If any of the comparables do not have finished basements or other atypical space with comparable finish/size to the subject, the report should be examined closely and perhaps returned for reclassification of the GLA or for the addition of other comparables with similar living areas.

- 5 The comparison of properties with dissimilar GLAs will often produce unreliable results. The most common error is the inclusion of a converted garage area into the subject's GLA and comparing it to a property with a similar GLA that does not include a converted garage. This procedure also applies to newer GLA additions on the subject or the comparable.

Client's Responsibility(ies)

- 2 Do not make a lot of fuss about the classification of rooms if such variances are not misleading or actually influence the value. Advise the appraiser not to use local conventions such as a bath as a description without an explanation.
- 5 The appraiser should be encouraged to separate the different types of GLA in all of the approaches so that the report can be more easily reviewed.

Related Areas of Discussion

- 1 Segregation of different GLAs in the cost approach.
- 1 Segregation of different GLAs in the sales comparison approach.

Fannie Mae Guidelines

- 3 The most common comparison for single-family properties (including Gross Living Area units in PUD, condominium, or cooperative projects) is above-grade gross living area.
- 3 For units in condominium or cooperative projects, the appraiser should use interior perimeter unit dimensions to calculate the gross living area. In all other instances, the appraiser should use the exterior building dimensions per floor to calculate a property's above-grade gross living area.
- 5 Only finished above-grade areas should be used—garages and basements (including those that are partially above-grade) should not be included. We consider a level to be below-grade if any portion of it is below-grade—regardless of the quality of its 'finish' or the window area of any room. *Therefore, a walk-out basement with finished rooms would not be included in the above-grade room count.*
- 5 ".....the appraiser should report the basement or other partially below-grade areas separately and make appropriate adjustments for them on the "basement and finished areas below-grade" line in the 'sales comparison analysis' adjustment grid. To assure consistency in the sales comparison analysis, the appraiser generally should compare above-grade areas to above-grade areas and below-grade areas to below-grade areas."

Quality Control (Audit)

- 1 Compare the GLA in the "Rooms" section to:
 - the entry on the line labeled "Dwelling _____ Sq. Ft" in the cost approach
 - the entry on the line labeled "Above Grade Room Count Gross Living Area" in the sales comparison approach and
 - the amount of GLA shown on the building sketch.

Notes:

This exercise is an example of the exercises included in the rear of the book. Detailed solutions with all calculations are also included in the manual.

ESTIMATED SITE VALUE			\$ 25,000.00	Comments on Cost Approach (such as, source of cost estimate, site value, square foot calculation and for HUD, VA, and FmHa, the estimated remaining economic life of the property) _____ Subject suffers from no external obsolescence. _____ _____ _____ _____ _____ _____
Dwelling	Sq.Ft.	@ \$ _____ = \$ _____		
_____	Sq.Ft.	@ \$ _____ = _____		
_____	Sq.Ft.	@ \$ _____ = _____		
Garage/Carport	Sq.Ft.	@ \$ _____ = \$ _____		
Total Estimated Cost New			\$ _____	
Less Physical Functional External				
Depreciation	<u>000.00</u> <u>000.00</u> <u>000.00</u>	= \$ _____		
Depreciated Value of Improvements			\$ _____	
"As is" Value of Site Improvements			\$ _____	
INDICATED VALUE BY COST APPROACH.....			\$ _____	

Sales Price	Refinance	\$90,000	\$105,000	\$98,000			
VALUE ADJUSTMENTS	DESCRIPTION	DESCRIPTION	+ - Adj	DESCRIPTION	+ - Adj	DESCRIPTION	+ - Adj
Location	Good	High Traffic	+3,500	Similar	0	Similar	0
Leasehold/Fee Simple	Fee Simple	Fee Simple		Fee Simple		Fee Simple	
Site	100 X 200	100 X 200	+5,000	120 X 200	-5,000	100 X 200	0
View	Average	Average		Average		Average	

Exercise 6-3

- Using the information above, what is the land value for the three comparables, 1 to 3?
 - (a) 1 = \$21,500, 2 = \$20,000, 3 = \$25,000
 - (b) 1 = \$16,500, 2 = \$30,000, 3 = \$25,000
 - (c) 1 = \$20,000, 2 = \$30,000, 3 = \$25,000
 - (d) Insufficient information
- Using the information above, what is the present value of the improvements for the three comparables, 1 to 3?
 - (a) 1 = \$70,000, 2 = \$75,000, 3 = \$73,000
 - (b) 1 = \$60,000, 2 = \$80,000, 3 = \$73,000
 - (c) 1 = \$80,000, 2 = \$70,000, 3 = \$73,000
 - (d) Insufficient information
- Using the information above, what would have been the most likely sale price for comparable # 1 if it was not located on a high traffic street?
 - (a) \$98,500
 - (b) \$95,000
 - (c) \$103,500
 - (d) Insufficient information
- Using the information in the previous grid, what would be the adjustment under site for a 4th comparable with a lot size of 90 X 200 and the site was identical to the subject in all other respects?
 - (a) \$22,500
 - (b) A negative \$2,500
 - (c) A positive \$2,500
 - (d) Insufficient information