Why The Appraisal Review?

http://hubpages.com/hub/whytheappraisalreview

By Charlie Elliott, MAI, SRA
Real Estate Appraiser and Consultant
CEO Elliott & Company Appraisers

For many of us the term "appraisal review" is another one of those phrases that that seems to have slipped into our professional vocabulary whereby we have not had any reason to develop
a true understanding of its meaning.

The term, "review," we understand as meaning revisiting or taking a second look at. We understand what an appraisal is, why it's necessary, how it's used, what it looks like, etc. When we put these two together on the surface they may sound professional and or technical, but what actually is an appraisal review and who may perform it? Why is it necessary? What is it used for? Who decides when it is required? How does it affect the lending process?

An appraisal review is defined by The Dictionary of Real Estate Appraisal as "The act or process of developing and communicating an opinion about the quality of another appraisers work." A practical exploitation of the appraisal review requires discussion and more verbiage than just a few well-chosen adjectives.

The appraisal review is a critique of an appraisal by a state certified appraiser other than the appraiser who prepared the appraisal. The review is prepared in writing much like the appraisal itself and is subject to the same professional scrutiny as that of the appraisal. Both the appraisal and the appraisal review must be prepared in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP).

There are generally two different types of review appraisals, the field review and the desk review. The desk review is prepared, as the name implies, without the appraiser leaving his desk and without performing a property inspection or an inspection of the comparable sales used in the appraisal.

The field review, to the contrary, requires that the review appraiser actually perform an exterior inspection of the subject property and the comparable sales used in the appraisal.

Both reviews are prepared on a form, which addresses all of the components of the appraisal. The reviewer must express an opinion for each component, and is required to summarize his findings to include whether or not he agrees with the value estimate provided in the appraisal. If the appraiser disagrees with the value estimate he explains that he disagrees, he explains why and he may provide his own estimate of value. In cases where a review appraiser performing a desk review is in disagreement with the appraisers appraised value, he may convert the desk review to a field review in order to get a first-hand look at the properties in an effort to provide a thorough evaluation.

This sometimes presents those of us involved with a potential dilemma or conflict. This conflict can arise relative to the cost of the service that the appraiser is providing for the client. When an appraiser can review an appraisal at his or her desk, when the review appraiser concludes that the appraisal is of good quality and when there is agreement about the value estimate, everybody is usually happy. It is when the reviewer is in disagreement with the appraiser preparing the appraisal that challenges begin to appear. In situations where a desk review is converted to a field review this may become an issue. Generally, the appraiser has quoted a fee for a desk review and, for sake of discussion, let's says that is for one hour's work. A field review, on the other hand, can take much longer, perhaps four hours, including the cost of transportation to inspect the subject, each comparable sale and perhaps additional comparables that must be added. A little elementary math tells us that the fee could increase as much as four fold in such a case.

Ethics do not necessarily dictate that the reviewer performs a field in such cases unless there has been a prior agreement that the assignment be converted from a desk review to a field review. He or she can merely disagree with the appraiser, state why and ship the work to the client. The problem usually arises when the client learns that the reviewer is in disagreement but has not provided a value opinion. In order to do this the reviewer must enter into a second stage of work, which takes a lot of time as indicated above.

Lesson learned, be sure that there is an understanding as to whether the reviewer is responsible for providing a dissenting value opinion if he or she disagrees with the initial appraisers work. Make sure also that there is an understanding whether the fee will increase and how much, once the assignment is taken to a higher level.

Now back to the questions posed at the beginning.

Why is an appraisal review necessary? There can and sometimes are a variety of reasons, but the most often cited is to insure appraisal quality and implicit therein is that of validating the value opinion.

How is it used? Usually by the underwriter or other bank official to validate the opinion expressed in the original appraisal. Underlying issues, which we find in today’s market, range from questions concerning appraiser competence and potential fraud. This is especially the case where mortgage originators, such as brokers, select appraisers prior to loan underwriting and approval.

Who decides when it is required? The lender making the loan decides. This is usually the function of the quality control or underwriting division of the mortgage company.

How does it affect the lending process? The lending process is affected in a number of ways. First, a borrower may learn that his or her loan is turned down after believing that it would be approved, when it is learned that the review reflected less value in the collateral property than the initial appraisal. Needless to say, in many cases the loan originator will suffer a disappointment on payday if the loan cannot be funded. The mortgage company considering the loan would perhaps be spared the risk of making a loan that may be under collateralized.

In conclusion, we are likely to see more appraisal reviews in the future, considering the potential for fraud in the lending community and the large number of loans which are originated by brokers purchasing appraisals from appraisers unapproved by the mortgage lenders funding loans.

Charlie W. Elliott Jr., MAI, SRA, is President of ELLIOTT® & Company Appraisers, a national real estate appraisal company. He can be reached at (800) 854-5889. (March 2004)