

**OFFICE OF REAL ESTATE APPRAISERS**

1755 CREEKSIDE OAKS DRIVE, SUITE 190  
SACRAMENTO, CA 95833-3637



## Most Common Appraisal Errors

### “Overview” Issues

- Appraisers falsely certifying inspection of subject properties by using unlicensed (or licensed) assistants to perform the inspections. Even if the appraiser recognizes the assistant’s “significant real property appraisal assistance” as required by USPAP, the appraiser signing a Certification that he or she has personally inspected the interior of the subject property creates a misleading report.
- Appraisers succumbing to lender/broker pressure. The most common example is requesting an appraiser to “hit the value,” but other issues also exist, such as requesting an appraiser to ignore the fifth unit in a multi-family property, so the borrower can obtain more favorable 1-4 family financing.
- Appraisers failing to seek relevant and comprehensive educational offerings. It is far too common that appraisers look at continuing education simply as a means of satisfying their license requirements. Many appraisers prefer the “quick and dirty” approach to education, as opposed to truly getting something valuable out of the course offering. Appraisers are often not receiving adequate instruction to enable them to progress. Distance education courses, while convenient and inexpensive, can create an impression that the appraiser has gained an understanding of material that he or she may not adequately grasp.

### Specific Appraisal Related Issues

- Appraisers’ inability to comprehend the requirement of identifying intended use, intended user(s) and the impact on the appraiser’s Scope of Work and work product.
- Lack of adequate analysis of a prior sale or listing of the subject property within the three-year time frame. Many appraisers mistakenly believe that the simple disclosure of this information is adequate; however, USPAP requires the appraiser to analyze the reason for differences between a prior sale and a current sale.
- Inaccurate or insufficient property descriptions, often due to workload demands and pressure from lender/broker. This can typically include:
  - a. Over-reliance on boilerplate
  - b. Insufficient discussion of recent upgrades, repairs, etc.
  - c. Incorrect zoning
  - d. Incorrect neighborhood boundaries
- Failure to accurately disclose the appraisal reporting option
- Non-compliance with Competency Rule in accepting an appraisal assignment. This also often includes a lack of geographic competency.

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**Specific Appraisal Related Issues (continued)**

- Problems with Cost Approach:
  - a. No support for cost per square foot even though Marshall Swift is quoted as a reference
  - b. Land value said to be obtained by abstraction, but not credible
  - c. Minimal support for depreciation estimates
  
- Problems with Sales Comparison Approach:
  - a. Boilerplate discussion and minimal support for adjustments
  - b. Inconsistency of adjustments between comparable sales
  - c. Comparable sales out of neighborhood, when more appropriate sales are available in immediate neighborhood
  - d. Failure to utilize MLS as a data source
  
- Problems with Income Approach on 2-4 unit appraisals:
  - a. Boilerplate discussion for rental comparables with little or no discussion of relative comparability
  - b. Lack of due diligence in GRM extraction. Based on actual rents, not particular investors perception of economic rents (actual vs. projected)

**Appraisal Review Issues**

- Common problems:
  - a. Reviewer not possessing geographic competency for appraisal under review
  - b. Reviewer not performing review with the same effective date as the appraisal under review
  - c. Reviewer developing alternative value without complying with Standards Rule 1.
  - d. Reviewer utilizing comparable sales data that became available after the effective date of the appraisal
  
- Important considerations:
  - a. Look for full disclosure and analysis of past sales history or current agreement of sale
  - b. Study and analyze all photographs of the subject property and the comparable sales
  - c. Analyze the building sketch in the context of the site map
  - d. Study location maps of the comparables. Analyze their location with respect to the subject property. Is there support for their selection?
  - e. Does the appraisal contain adequate support for all conclusions in the report? Does the report lead the reader to the stated conclusion? The reader must never be required to take "a leap of faith"

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This page is located on the U.S. Department of Housing and Urban Development's Homes and Communities Web site at <http://www.hud.gov:80/news/release.cfm?content=pr03-055.cfm>.

## News Release

HUD No. 03-002  
Lemar Wooley  
(202) 708-0685 x 6631  
[www.hud.gov/news](http://www.hud.gov/news)

For Release  
Monday  
January 13, 2003

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### **HUD ANNOUNCES NEW RULE TO PROTECT HOMEBUYERS FROM PREDATORY LENDING PRACTICES**

WASHINGTON - The Department of Housing and Urban Development today announced another step in its efforts to protect homebuyers from predatory lending practices by publishing a proposed "lending accountability" rule that makes lenders accountable for appraisals on mortgages insured by the Federal Housing Administration (FHA). The rule will be published in the Federal Register.

Predatory lending results when home purchasers become unwitting victims of lenders, sellers and appraisers, often working together. The unsuspecting homebuyers either purchase homes with sales prices far in excess of the fair market value, or are substantially overcharged with costs associated with obtaining a mortgage.

"The Bush Administration is doing everything we can to protect homebuyers, particularly minorities, from unscrupulous predatory lending practices," said HUD Secretary Martinez. "Predatory lending has no place in the FHA market, sub prime market, or any real estate transaction."

"We are committed to creating 5.5 million new minority homeowners by the end of the decade, the key to making the dream of homeownership a reality for more people," added Martinez.

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The proposed rule "FR-4722 Lender Accountability for Appraisals" makes lenders accountable for the quality of appraisals performed by the appraisers the lender hires, and has been reviewed by Congress and will be published in the Federal Register for comment today.

This rule seeks to strengthen HUD's regulations concerning the responsibilities of lenders in the selection of appraisers to perform appraisal on properties that will be security for FHA insured mortgages.

The rule makes lenders strictly accountable for the quality of the appraisals and specifies that lenders that submit appraisals to HUD that do not meet FHA requirements are subject to the imposition of sanctions by HUD's Mortgagee Review Board.

The rule will help assure that homebuyers will receive accurate statements of appraised values on homes they purchase using FHA mortgage insurance. The proposed rule will be revised after the consideration of public comments into final form for implementation.

Other recent actions by the Bush Administration to protect homeowners from predatory lending and promote homeownership include:

- A recent plan announced by HUD to expand protection of homeowners by proposing performance standards for appraisers of FHA-single family homes under its Appraiser Watch Initiative. Under Appraiser Watch, some 25,000 appraisers will be held accountable for faulty appraisals, which too often lead to default and foreclosure. FHA will monitor appraisers' default and claim rates and will levy sanctions - including removal from its list of approved appraisers - against those whose rates are excessive.
- A proposal to reform the regulatory requirements of the Real Estate Settlement Procedures Act (RESPA) that would make the process of buying and refinancing a home significantly simpler, potentially less expensive and would protect consumers from unscrupulous lending practices.

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- The "Homebuyer Bill of Rights," which requires greater disclosure of costs associated with buying a home, allows consumers more choices in choosing providers of closing services, limits excessive settlement fees and encourages innovation and competition in the marketplace.

HUD is the nation's housing agency committed to increasing homeownership, particularly among minorities, creating affordable housing opportunities for low-income Americans, supporting the homeless, elderly, people with disabilities and people living with AIDS. The Department also promotes economic and community development as well as enforces the nation's fair housing laws. More information about HUD and its programs is available on the Internet.

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**U.S. Department of Housing and Urban Development**

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## News Release

HUD No. 03-055  
Lemar Wooley  
(202) 708-0685 x 6631  
[www.hud.gov/news](http://www.hud.gov/news)

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**BUSH ADMINISTRATION PROVIDES HOMEBUYERS NEW PROTECTION FROM PREDATORY LENDING PRACTICE**  
***New "Anti-Flipping" Rule Holds Lenders, Sellers and Appraisers Accountable***

WASHINGTON - Housing and Urban Development Secretary Mel Martinez today announced a new initiative in the Bush Administration's efforts to crack down on predatory lending. HUD published a final rule today in the Federal Register addressing property "flipping" on mortgages insured by the Federal Housing Administration (FHA).

Property "flipping" occurs when a recently acquired property is resold for a considerable profit with an artificially inflated value.

"The Bush Administration is committed to maintaining a strong housing market in which consumers can feel confident that they are protected from unscrupulous practices," Martinez said. "This final rule represents a major step in our efforts to eliminate predatory lending practices."

Predatory lending results when home purchasers become unwitting victims of lenders, sellers and appraisers, often working together. The unsuspecting homebuyers either purchase homes with sales prices far in excess of the fair market value, or are substantially overcharged with costs associated with obtaining a mortgage.

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The final rule, "**FR-4615 Prohibition of Property Flipping in HUD's Single Family Mortgage Insurance Programs**," (view as TEXT or view as PDF file) makes recently flipped properties ineligible for FHA mortgage insurance. It also allows FHA to better manage its insurance risk by requiring additional support for a property's value when a significant increase between sales occurs. Features include:

**Sale by Owner of Record:** Only the owner of record may sell a home to an individual who will obtain FHA mortgage insurance for the loan; it may not involve any sale or assignment of the sales contract, a procedure often observed when the homebuyer is determined to have been a victim of predatory practices.

**Time Restrictions on Re-sales:**

- Re-sales occurring 90 days or less following acquisition will not be eligible for a mortgage to be insured by FHA. FHA's analysis disclosed that among the most egregious examples of predatory lending was on "flips" that occurred within a very brief time span, often within days. Thus, the "quick flips" will be eliminated.
- Re-sales occurring between 91 and 180 days will be eligible provided that the lender obtains an additional appraisal from an independent appraiser based on a re-sale percentage threshold established by FHA; this threshold would be relatively high so as to not adversely affect legitimate rehabilitation efforts but still deter unscrupulous sellers, lenders, and appraisers from attempting to flip properties and defraud homebuyers. Lenders may also prove that the increased value is the result of rehabilitation of the property.
- Re-sales occurring between 90 days and one year will be subject to a requirement that the lender obtain additional documentation to support the value to address circumstances or locations where HUD identifies property flipping as a problem. This authority would supersede the higher expected threshold established for the above-mentioned 90 to 180 day period and will be invoked when FHA determines that

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substantial abuse may be occurring in a particular locality.

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