

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

Programming sponsored and provided by **Builder Partnerships**



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Joe Robson (*Moderator*)

2009 Chairman of the Board

National Association of Home Builders

Founder and President

The Robson Companies, Inc., Tulsa, OK



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This discussion will be recorded and archived for later viewing at:

www.nahb.org/elearning

An email will be sent to all participants with the archive location



- Nearly 350 builder members; 25,000 units
- Over 70 manufacturer and service associates
- *More than \$2500* in incentives per unit
- Competitive incentive program designed to capitalize on our collective strength
- Our focus is on providing education and strengthening relationships in the industry
- Centralized administration and submissions plus follow up with manufacturers to track and collect your money so you don't have to
- We save you time, resources and money so you can focus on the things that matter: getting the best products at the best price without worrying about rebates

To learn more, visit www.builderpartnerships.com

**Webinar Special: Sign up for Builder Partnerships by Aug 30th and we will waive the sign up fee.*



A widely recognized and well-respected leader in *providing support and training to homebuilders* and other organizations in the home building industry.



An agent for its members and associates aimed at *fostering communication and cooperation* between builders and manufacturers.

Charles C. Shinn, Jr., PhD

Highly respected management consultant for the industry

Over 40 years supporting builders across their organizations through training, education, and consulting

Inspires hundreds of builders each year through his frequent speaking engagements and educational seminars.

Many clients who have followed his advice are repeat award winners and leaders in their markets

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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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Martin J. Mitchell, Mitchell & Best Homebuilders (*Panelist*)

Vice CEO, Vice President Land and Business Development

Marty Mitchell is the Vice CEO and Vice President of Land and Business Development for Mitchell & Best Homes, a leading homebuilder in the Washington DC – Baltimore metropolitan area. The company has been in business for almost 35 years and has developed over 60 new communities.

Mitchell is very involved in local, state and national builder associations and has been on the Maryland National Capital BIA Board of Directors for 10 years and a member of the NAHB Board of Directors since 2005. He is currently the Chairman of the Single Family Finance Sub-Committee and a member of the Housing Finance Committee.

Mitchell is active in green building both on a state and national level and serves on numerous boards and committees working to further green building.

Mitchell received his MBA from the University of Maryland.

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Allen W. Gardiner, SRA, Vice President, Residential, Jackson Claborn, Inc.

Allen Gardiner is the Vice President of Residential for Jackson Claborn, Inc. (JCI) a leading appraisal and real estate consulting firm in the Dallas-Fort Worth area. JCI offers residential and commercial appraisal services and has been in business since 1991. JCI has performed over 80,000 appraisal and consulting services since its inception and Allen has been a part of JCI since 1992.

Gardiner has been involved on a local, regional and national basis with the Appraisal Institute, the leading professional real estate appraiser organization. Gardiner currently resides as Vice President of the North Texas Chapter of Appraisal Institute, as well as a Regional Representative. Gardiner also resides as the national Chair of the Residential Advisory Committee for the Appraisal Institute

Gardiner has served with FACT (Foundation Appraisers Coalition of Texas) as a committee member in the initial efforts of submitting potential legislation for AMCs in Texas.

Gardiner received his BBA in Finance and Economics from Texas Tech University in 1991

Gardiner and his wife, Leslie, have two children, Hagen and Haylie and reside in Frisco, Texas. The family is involved in numerous civic organizations in the DFW area.

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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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- 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

Visit **Builder Partnerships**
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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

