

## Appraisal Guidance for Builders

- What should the builder expect from the appraiser and appraisal process?
  - Appraisers provide an opinion of market value.
  - Open communication with the appraiser.
  - Appraiser's client is the lender and the appraiser is not allowed to discuss values with builders. They can and should discuss market activity in the subject neighborhood and competing markets
- The appraiser selection criteria are based solely on lender guidelines.
  - Builder should demand lenders select qualified appraisers.
  - Your first concern should be the lender and their process of selecting appraisers.
  - Interview the appraiser: how many other appraisals have they completed in the area? How long have they been appraising? Are they licensed or certified? Do they have access to MLS and other data sources? (If they have no access to MLS and data sources that is a red flag.)
  - If an appraiser is selected who is not competent contact the lender immediately. Distance is not always the best indicator.
- Comparable sales
  - 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.
  - Appraiser needs to be aware of competing listings
  - Many new construction sales are not available through MLS. Refer the appraiser to other builders with competing product.
  - Builders are encouraged to input sold houses in the MLS to assist appraisers.
  - If the subject is within a developing subdivision, what is the absorption rate?
  - How many sales were arms length vs distressed?
  - What are the competing neighborhoods?
- Use of AMCs is 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.
  - Appraisers cannot be chosen by someone with a financial interest.
  - There is 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)
  - Builders should provide: Market and absorption information.
    - Sales Information.
    - All relevant data. Builder's biggest mistake is they hide data. Plans and specifications of the property. Information on how their product differs from their competitors. Details on what and why material was chosen.
    - Buyers' reactions to products selected.
    - HOA or Condo documents as appropriate.
- 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.
- What Steps Should a Builder Take?
  - Start by helping the lender with candid discussions on project and market.
  - Request the appropriate appraisers.
  - Understand Energy Efficiency and Green Building values.
    - Provide any third party verification of Green Building and Energy Efficient features.
    - Encourage the use of the New Appraisal Institute addendum on Energy Efficiency.
  - Communicate with the appraiser
    - Provide all appropriate comps.
    - Request on-site, face-to-face meetings.
  - Develop a check list for builder staff on information to provide the appraiser.
- 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.
    - Don't wait to file a complaint after the appraisal has been completed. If you do it leaves the appearance of attempting to influence the outcome.
  - How should a builder challenge the use of inappropriate comps?
    - Provide best and all relevant sales/data before appraisal is completed.

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# National Association of Home Builders

- Keep a record of data provided to appraiser. (email, notes in calendar)
- Communicate with appraiser first.
- Understand appraiser's 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.
- How can the builder respond to unilateral adjustments of value by the lender?
  - Fannie Mae's new guidance states a lender cannot at its 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.
- Where should 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.
- Offense is the best defense
- Builders can engage their own appraiser but with the understanding that their appraisal may not be used for lending purposes. In today's environment it would be an inexpensive tool to properly market and sell new construction. A copy of that appraisal can be shared with the appraiser that the lender hires. Define the scope of work for the appraisers to include all relevant sales and listings for comparison. Depending on the complexity of your market and the subject property expect to pay between \$350 and \$1000.

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