

## Use of Mortgage Appraisals to Compare with Assessments

Residents will often bring into the Assessing Department a copy of a mortgage appraisal for their property expecting that we will automatically adjust the assessed value to reflect the value in the mortgage appraisal that was created for the purpose of obtaining a mortgage or refinancing a loan. You may be thinking that this appraisal is "better" or more accurate than your assessment. However, your appraisal's valuation is more likely based on many different criteria than assessing criteria.

The guidelines for a mortgage/refinance transaction are very different than guidelines used for assessments. In fact, these guidelines vary depending on the lender. Usually, an appraisal used for a refinance uses three or more comparables, which have sold within six months and are within one mile of the subject property. An assessment uses all sales within a one-year time line and may or may not be within one mile of the subject property; so right away we have a different market of at least six months with comparables outside of the one mile appraising guideline. If most of these sales occurred near the beginning of our one-year sales study in our currently downward market, the assessment is "tempered" by much earlier data and can be one or more years behind current market values. This may not be so good now, but think back when the market was (by current standards) overheated. At that time, assessors were using a two year study, which ended about one year before assessments were made. In those days, assessments were tempered by earlier (and lower) sales, which resulted in lower assessments. We had 14 years of this type of activity before this current market.

In today's market, the selection of just three comparables can yield a vast difference based on those comparables, especially if some selected are low sales vs. some selected which are high sales. There is an old story: a couple divorces. One gets the house. This person hints to the appraiser to find "a low value." The other person gets bought out. This person hints to the appraiser to "find a high value." Now I doubt this really happens, but it does shed light on the common theme: Three low comps will give a lower overall value. Three high comps will give a higher overall value. Both appraisals are correct!! Some lenders want an appraisal that is for an entire parcel, i.e. 20 acres, all pole buildings, and the residence. Another lender may want only the building site and residence to be appraised. The remaining acreage and buildings are not included in the appraisal even though they are part of the parcel.

Have you ever looked at the page where the comparables are adjusted to the subject property? Where do these adjustments come from? The correct way to find the adjustments is to do a paired sales analysis to subtract differences from the market. Brief example: Two homes have sold. Both are identical except one is lakefront. One house sold for \$200,000, while the other sold for \$350,000. A \$150,000 adjustment can be used based on lakefront vs. non-lakefront, if all other things were equal. This is the way that all adjustments are supposed to be made. However, to control appraisal costs and due to time constraints, adjustments made for mortgage/loan refinance appraisals do not often use paired sales comparisons but rather "accepted market adjustments." The appraisal prepared for a mortgage/refinance transaction is an estimate of market value based on the intended use, i.e. a "Mortgage Transaction." These are the vast majority of appraisals our office sees. All appraisals must state the intended use and will also state that any use other than the intended use is not allowed. This is so stated because a different use other than a refinance transaction would require different comps, different time lines etc. Most of all, using the appraiser's appraisal for another unintended use is simply misleading. If the appraiser gives permission, they are in violation of an USPAP ethics rule.

What is important is that the property owner, who wishes to submit an appraisal to help determine their property values, should submit an appraisal that clearly states the appraisal's "Intended Use" i.e. to determine market value for tax purposes" and it should specifically state who is the "Intended User" for the appraisal. "Intended Use" and "Intended User" are important terms to remember when considering a property appraisal.