

## Valuing your home: Prices stabilizing, but new rules cool gains

Posted: Wednesday, May 19, 2010 7:45 am | Updated: 8:30 am, Wed May 19, 2010.

By Ralph E. Wirtz [ralphewirtz@mdn.net](mailto:ralphewirtz@mdn.net) |

While home prices in Midland seem to have stabilized and are rebounding, Realtors, lenders and appraisers wonder if new federal regulations and the glut of foreclosed homes on the market aren't making the recovery tougher.

Both sales and house values have climbed during the first four months of 2010, according to statistics from the Midland Board of Realtors.

"Last year it was close to stabilizing. I don't think there's any argument now, we've stopped the decline," said Tom Darger, a Realtor for Ayre Rhinehart. "This year the data is not disputable."

That data shows that this year there is a 62 percent increase in the number of homes sold over the comparable period in 2009, that there is an 85 percent increase in the total value of homes sold, and that the average price of homes sold in 2010 is 15 percent higher than in 2009. The 2009 market was up 7 percent over the 2008 market during comparable periods.

"It's probably not as good as four years ago," said John Martin, a lender from Wolverine Bank. But, he added, "things seem to have stabilized in Midland."

Darger said there is other evidence the market is improving. The average length of time a two-story home was on the market was down to 60 days from 78 a year earlier, while the average sales price per square foot increased to \$80 from \$77 a year earlier.

Home values in Michigan overall, however, are declining, according to the website Zillow.com. Current real estate market reports from that site show that Michigan home values declined 11.1 percent between March of last year and March of this year. The problem is especially acute in Detroit, where homes on the market lost 18.8 percent of their value since last March. Even Grand Rapids, which was hailed last week in Fortune magazine as a "model" for other city executives to study, is showing a 3.5 percent drop in home values.

Darger believes that image of Michigan as a "declining market" for real estate is hurting Midland with the large, national banks and in the secondary markets, where many banks and mortgage brokers sell mortgages.

Because of that image and because of their lack of knowledge of the area, the out-of-state banks are making it more difficult for loans to be processed, Darger believes. Couple that, he said, with many of the non-local banks using non-local appraisers who themselves come from areas still in decline, and the loan process starts out on the wrong foot.

"They can't envision that there is an island of prosperity in the troubled waters of Michigan," Darger said. Because of that, he believes, one of his sellers lost \$8,000 on a house sale.

"If you have a local appraiser, like Peterson and Watson, there is a 95 percent chance that they've walked through all the properties that are being compared," he said. They would have known that the seller's house was in much better condition than those being used as "comparables."

"That is exactly what happened in this circumstance," Darger said. The appraiser admitted he didn't walk through, the appraisal came in lower than it should have, "and the seller lost \$8,000."

While most of the people interviewed for this story agree that the use of non-local appraisers might result in questionable appraisals, nearly all agreed that a new federal regulation aimed at curbing one of the worst excesses of the freewheeling real estate market that imploded three years ago has had a cooling effect on the market. No one, however, seems to be able to quantify just how much that might be.

Those regulations were meant to stop banks and mortgage brokers from cherry-picking appraisers who would produce value numbers the bankers or Realtors were looking for. In addition, it was meant to stop those participating in the loan process from leaning on appraisers to come up with numbers that matched the price both buyer and seller were looking for. Finally, it was meant to stop people from coming up with appraisals that might not have reflected the true economics of the real estate markets in certain areas.

These transgressions, those who wrote the rules believe, were at the crux of inflated house values that helped feed the collapse.

"The regulations came about because of the all the cheaters," said Dick Peterson, a partner in Peterson and Watson Appraisal Service. "In ways I could not even have imagined. The banks got burned."

"Now everybody's paying the price, even those who did nothing wrong" said Barb Rice, president of the Midland Board of Realtors and a Realtor with Mid-Land Executive 1 Realtors. "From the local appraisers we always got a value that was good. But, what affects the nation as a whole, affects all of us."

Called the "Home Valuation Code of Conduct," the regulations aim to give greater independence to appraisers who estimate a home's worth. It does this by requiring that lenders use appraisers who are licensed or certified by the state in which the property is located, and by putting together a list of those qualified appraisers who then are selected in rotation as they appear on the list. There can be no deviations from the list.

According to Lisa Orlando, loan sales manager at Wolverine Bank, the person doing the assigning of appraisers can't be in the bank's loan department. She also said that Wolverine does its due diligence when it selects appraisers for the list and it conducts annual reviews of their performance. All of their appraisers are local.

"Because of this we get very good value," she said. "We get people who know the market."

Tom Watson, a partner in Peterson and Watson Appraisal Service, said some financial institutions have five appraisal firms on the list, others might have 10. But, no matter the number, there has to be a rotation among the appraisers.

Watson and Peterson both believe the new regulations are geared toward a big-city market, where the number of home sales are greater. Prior to the the passage of the new regulations, appraisers could use data from just three comparable sales, and the sales could be older, up to six months. Now it's three months.

From these home sales come comparable properties, with comparable neighborhoods.

"Now we have to give five or six comparables," Watson said. "We struggle to find comparables. It's an uphill battle."

In addition, the new "Market Condition Addendum to the Appraisal Report" requires much more information, such as detailed seller concession trends, foreclosure sale factors and housing inventory numbers, among others.

"And we have to have more pendings and listings to support that," Peterson said. It also requires appraisers to make judgments, such as whether overall sales and value trends are increasing, stable or declining.

"We do the analysis, and if it is high for the neighborhood, you'd better have the home sales," he added.

Peterson considers himself an "historian," one who looks at what has sold recently, whether there is an undersupply or oversupply on the market, what have been the trends in a certain neighborhood, what changes in an area that might affect a home's worth, what have been the historical cycles.

"We consider ourselves advocates for the property," he said. "If we can prove our point, then the underwriter should accept it."

Watson agreed.

"A home is worth the same, no matter who owns it or who is financing it, he said.

An oversight in the rules

While the new law requires licensing in the state, it doesn't require that people doing appraisals be from the area in which the property is located.

Peterson calls this "jurisdictional competence." That means that appraisers who generally work the real estate market in Lansing, for instance, would know that market. But they might not necessarily know the DeWitt market, or the Midland market. And people who live in Midland, know the Midland market, but not necessarily the Saginaw market.

"We wouldn't go to Lansing," he said. "And you have to wonder how competent a person is that would go to Lansing."

Peterson's partner, Tom Watson, echoed that sentiment. "If I don't know the area, I'll give some references of people who do."

Realtor Darger said that if the information isn't absolutely perfect, "the banks bounce the loan," particularly if the appraiser can't justify his numbers because he doesn't have knowledge of the area.

Others agree that loans requirements are tougher now.

Dave Poynter, a broker at FourStar Mortgage, said the new regulations have taken away his ability to send out all local appraisers. Before the regulations went into effect, he used all local appraisers.

Now, because of its size, FourStar has to hire an appraisal management service, which has on its rotating list both local and non-local appraisers, said Deb Tolpa of FourStar.

"Appraisers from Caro, Flint even if they are even as close as Saginaw, don't have a handle on our market," Poynter said.

That's particularly true when there aren't as many comparables as required by the new regulations, he said. Out-of-town appraisers might not know where one neighborhood of comparable homes begins and another ends.

"I don't believe a comp is a comp is a comp," he said. "A neighborhood might be the same, but two blocks over it might not be the same. That sways the appraisal."

Poynter noted two other problems with the new regulations. One, appraisers who had a difficult time getting hired by banks and lenders because of the caliber of their work, are now getting on lists simply because they are certified, "and are getting as much work as everybody else. Who the hell created this idea?"

"We see people on the lists who we never would have hired," he added. "That gives us a lot of mediocre appraisals we wouldn't have hired on our own."

Second, non-local appraisers might not have even seen the homes they choose as comparables.

"When we see photos used that come right out of the MSL listing, that leaves me to doubt," he said.

"We should have the right to choose an appraiser who is local and competent," said Tolpa.

Joel Beeck, a loan officer with Citizens Bank at North Saginaw Road and Eastman Avenue, believes it is important that appraisers be local. He also handles loans for Saginaw and Bay City.



"If the loan is from Midland, we are getting a local appraiser, no doubt," Beeck said.

Financing locally, too, can help with a home's value, said Wolverine's Orlando, because the bank has the ability to hold loans in house.

Martin agreed. "It doesn't fit the secondary market, but it still could be a very good loan, we want to service the customer."

Orlando and Martin pointed out that even though housing prices have stabilized, a big boost will be realized when all the foreclosed properties have moved through the market. Distressed houses help to keep values lower than they normally would be.

In 2009, there were 209 homes lost to foreclosure, up from 194 in 2008 and 167 in 2007. In 2000, there were only 39 foreclosures in Midland County.

  Be the first of your friends to recommend this.