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Use of Mortgage Appraisals to Compare with Assessments

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You just received a copy of an appraisal on your home and you wonder why the appraisal doesn't match your assessment change notice. You may be thinking that your appraisal is "better" than your assessment. However, your appraisal's valuation is more likely based on many different criteria than assessing criteria. Since your appraisal is most likely used for a mortgage/refinance transaction, the guidelines are very different than the guidelines used for assessments. An appraisal used for a refinance uses 3 or more comparables, which have sold within 6 months and are within 1 mile of the subject property. An assessment uses all sales within a one-year time line and may not be within 1 mile of the subject property, so right away we have a different market of at least 6 months with comparables outside of the 1 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, so in a rapidly declining marked, these assessments 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 have had 14 years of this type of activity before this current market. In today's market, the selection of just 3 comparables can yield a vast difference based on those comparables, especially if some selected are low sales vs. some selected which are higher 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: 3 low comps will give a lower overall value. 3 high comps will give a higher overall value. Both appraisals are correct!! Have you ever looked at the page where the comparables are adjusted to the subject property? Where do these adjustments come from? Well... The correct (and by the way, the only correct) way to actually find these 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 $200,000.00 while the other sold for $350,000.00. Guess which one is on the lake? (No, not the $200,000.00 one!) Using some math I picked up from (MAA) school, we can ascertain that $150,000.00 can be used for a value adjustment based on lakefront vs. non-lakefront (all other things being equal). This is the way that all adjustments are supposed to be made. If that is the case, you can be sure that the appraisal cost is going to be much higher than the what, $300.00 currently being charged for the time to find these adjustments, so these market adjustments are generally accepted market adjustments, not actual paired sales! These market adjustments may be close to reality, or they may be way, way off. Appraisers simply do not have the time to find sales, pair them etc etc. What you get when you have that appraisal in your hand is an estimate of market value based on the Intended Use i.e. a "Mortgage Transaction" in the vast majority of appraisals. If we get an appraisal that specifically states the appraisal's intended use is for Ad Valorem Taxes (and I did get one of those) we will then, as assessors, sit up and take notice. All appraisals must state the intended use, and will also state that any use other than the intended use is not allowed, and a different use would require different comps, different time lines etc.

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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 the USPAP ethics rule! (Thanks to Micheal Lohmeier for this very important revelation.) Also, during an MTT appeal, it may be prudent to advise all ears that this non-relevant appraisal should not be allowed; it is, once again, misleading...

Also, please note that assessors can only change values once per year (March), and once the March Board of Review is adjourned, these values (with very few exceptions) are final.