

More RE deals falling through, but don't blame banks

Short sales suppress appraisals, killing contracts

By DAVID WINZELBERG

A record number of contracted home sales are not making it to closing, and many in the real estate industry are blaming the large inventory of short sales and foreclosed homes for triggering the troubling trend.

Last month the National Association of Realtors announced that about 18 percent of its members nationwide reported having home sale contracts canceled in recent months. That's double the percentage of members who reported canceled contracts last fall.

Several factors can cause contracts to fall through, including the bank declining the buyer's mortgage application, appraisals that come in below the negotiated price (causing the mortgage lender to refuse to underwrite the loan) or problems related to home inspections and loss of employment.

Although there aren't accurate statistics on canceled contracts for Nassau and Suffolk counties specifically, mortgage brokers here say the main deal destroyers are lender-ordered appraisals of homes that are coming up short, causing banks to ask buyers for a larger down payment or negating the loans completely. Nationally, about 11 percent of NAR members reported they had a contract canceled in the previous three months because of low appraisals.

Mike McHugh, CEO of Continental Home Loans in Melville, said appraisers are

including short sales in their comparables for judging the current values of homes, but he said those distressed properties sell for about 70 percent below market value and should be eliminated from any market analysis. McHugh added that the process of selling foreclosed homes and many short sales differ from that of regular home sales because they have to be approved by a lender or other third party.

"Short sales and foreclosures are affecting appraisals of market-value homes," McHugh said. "Appraisers are not always recognizing that these aren't arms-length transactions."

But Appraiser Dom DiColandrea, owner of Allied Appraisal Service in Lindenhurst, said short sales and bank-owned properties have a profound effect on the market, and they can't be ignored when it comes to determining a competing home's value.

DiColandrea said lenders are motivated by a different set of variables than home sellers. Lenders could have property on their books they need to dispose of and will accept a lower price than a typical home seller would.

"Those properties are part of the formula," DiColandrea said. "The appraiser has to consider what you can get for your money."

Myra Warman, owner of Eisenoff Appraisers in West Hempstead, said the effect short sales have on home value estimates varies by neighborhood. Warman said a couple of short sales or foreclosures in an area may not factor into a home appraisal.

"When you have a sprinkling like one or two short sales or foreclosures, it doesn't constitute a market," Warman said. "It's an aberration."



MIKE MCHUGH: Distressed properties, which sell at 70 percent below market value, should not be considered when completing an appraisal.

But when there are several distressed properties in a neighborhood, Warman asked, how can you ignore them?

"Appraisers look at value through the eyes of the typical purchaser," she said. "Anyone buying a house is not going to ignore a large market segment if it's going to save them money."

Shelley Langenauer, owner of Comprehensive Appraisals in Plainview, agreed with Warman that one or two distressed homes in the neighborhood wouldn't make much of an impact when determining a home's value.

APPRAISERS LOOK AT VALUE THROUGH THE EYES OF THE TYPICAL PURCHASER

"The only time I may not consider a short sale is when there's one or two and not comparable to the subject property," Langenauer said. "But in an area where they're comparable and there's more than one, then that's your market and you have to consider them." She said short sales also affect home appraisals for mortgage refinancing, which Langenauer is mostly busy with these days.

"I'm not seeing a lot of sales," she said.

The whole home appraisal system changed drastically two years ago. Federal regulators determined that the cozy relationship banks had with appraisers contributed to the billions of dollars in mortgage fraud during the subprime home-buying frenzy. As a result, new federal housing guidelines, called the Home Valuation Code of Conduct, were enacted in 2009.

The new rules keep mortgage brokers, banks and Realtors from working directly or sharing information with appraisers in the sale of a home purchased with a Fannie Mae or Freddie Mac mortgage. Instead they must order home appraisals through an appraisal management company, which then contracts an appraiser to perform the service. Home appraisals on Long Island can cost anywhere from \$250 to \$400 apiece.

Real estate broker Don Scanlon, president-elect of the Long Island Board of Realtors, said he doesn't think short sales are suppressing the market value of regular home sales. "It is what it is," Scanlon said. "Whatever they're selling for, then that's the market."

Homeowners may not like the suggested selling price they hear from brokers, Scanlon said, because they price their home emotionally. Even if they find a buyer at a higher price, there's little guarantee the home will appraise to a value that satisfies the lender.

"Appraisers are not making an emotional opinion," Scanlon said. "It's an opinion of value based on the facts." And distressed properties, however less expensive, happen to be included in those facts.

Short sales: Feds changed rules for home appraisals