

Verification and Accuracy of Data

Presenter:

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Expectations...

- Importance of Verification
- How Verification Relates to
 - Market Value
 - Highest and Best Use
- Verification Methods

Verification and Accuracy

- Verification is required to comply with USPAP Standards Rule 1-4

555 **Standards Rule 1-4**

556 In developing a real property appraisal, an appraiser must collect, **verify**, and analyze all information

557 necessary for credible assignment results.

- Verification is a requirement of Fannie Mae ³, Freddie Mac ⁴, FHA ⁵ and VA ⁶

Uniform Residential Appraisal Report File No.

APPRAISER'S CERTIFICATION: The Appraiser certifies and agrees that:

10. I verified, from a disinterested source, all information in this report that was provided by parties who have a financial interest in the sale or financing of the subject property.

Freddie Mac Form 70 March 2005 Produced using ACI software, 810.234.8727 www.aciweb.com Page 5 of 6 Fannie Mae Form 1004 March 2005 1004_05 06/2005

- Verification is important to ensure that accurate data is collected, analyzed and reported

³ FNMA 2007 Selling Guide, Chapter XI, Sections 102.02, and XI, 406.01
⁴ Freddie Mac Selling Guide, Chapter 44, Sections 44.6, 44.7, 44.13 and 44.15
⁵ HUD Handbook 4150.2, pages D-29 and D-32
⁶ VA Lender's Handbook, Chapter 11, Sections 11.07, 11.08, and 11.13

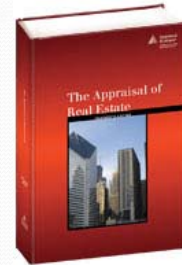
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- What is Verification?
 - Not defined in USPAP, so use common meaning
 - Definitions:
 - A confirmation of truth or authority ⁷
 - To prove that something exists or is true, or to make certain that something is correct ⁸
 - Synonyms: ⁹
 - Certification
 - Confirmation
 - Proof
 - Validation

⁷ The American Heritage Dictionary
⁸ Cambridge Dictionaries Online
⁹ www.thesaurus.com

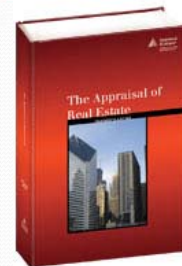
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- What is Verification?
 - The Appraisal of Real Estate, 13th Edition:
 - "Verify the information by **confirming that the data obtained is factually accurate** and that the transactions reflect arm's-length market considerations. Verification should elicit additional information about the property and the market so that comparisons are credible." ¹⁰



¹⁰ The Appraisal of Real Estate, 13th Edition, Page 301
¹¹ The Appraisal of Real Estate, 13th Edition, Page 304

- What is Verification?
 - The Appraisal of Real Estate, 13th Edition:
 - "Appraisers should verify information with a party to the transaction **to ensure its accuracy** and to gain insight into the motivation behind each transaction." ¹¹
 - To verify sales data the appraiser **confirms statements of fact** with the principals to the transaction, if possible, or with the brokers, closing agents, or lenders involved." ¹¹



¹¹ The Appraisal of Real Estate, 13th Edition, Page 304

- What Verification is **Not**
 - The Appraisal of Real Estate, 13th Edition:
 - “Referencing public records and data services **does not verify a sales transaction**. It simply confirms that a transaction was recorded.”¹²

Sale History			
Recording Date	01/16/2001	10/01/1997	00/00/1993
Sale Price	\$264,500	\$249,500	\$185,000
Buyer Name			
Seller Name			
Document Number	3331	65123	74833
Document Type	Warranty Deed	Warranty Deed	Warranty Deed

7

¹² The Appraisal of Real Estate, 13th Edition, Page 305

- What essential data cannot be confirmed when referencing public records?
 - Seller concessions
 - Conditions of sale (arm’s-length transaction, buyer and seller motivation)
 - Personal property
 - Other factors influencing value

8

¹² The Appraisal of Real Estate, 13th Edition, Page 305

- What Verification is **Not**
 - The Appraisal Institute's "Online Data Verification Methods" Course states that **verification includes validating information about a comparable property indirectly, which would include secondary sources, or data services such as the MLS.**

	IRES MLS #: 614821	Price: \$519,000
	740 Meadow Cir, Estes Park 80517	Status: Sold
LOCATION INFORMATION		
Locale: Estes Park	County: Larimer	
Area/SubArea: 11/2	Map Book: X - 0 - 0	
Subdivision: Park Entrance Estates		
Legal: LOT 15, BLK 1, PK ENTRANCE EST, EP		
SOLD INFORMATION		
Sold Date: 07/30/2010	Sold Price: \$500,000	
Terms: CONV FIX	DOM: 200 DTO: 200 DTS: 242	
Down Pmt Assist: N		
Concession Type: None		
SCHOOL INFORMATION		
Elementary: Estes Park		
Middle/Jr.: Estes Park		

9

- What Verification is **Not**
 - While certain data may be verifiable through **secondary sources**, they **generally do not provide adequate information** about:
 - Sales concessions
 - Whether the sale was an arm's-length transaction
 - If multiple properties were involved in the sale
 - If personal property was included
 - Other factors influencing value.

10

- Definition from the Appraisal Institute's "Online Data Verification Methods" Course:

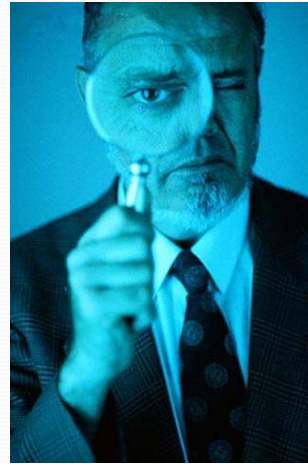
- **Verification:**

(synonym: confirmation)

is the process of **validating** or **learning** information about a comparable property

directly or **indirectly** from a party to the transaction

that results in the appraiser being comfortable with the reliability of that transaction as an indication of market value.



11

"the process of validating or learning information..."

- **Validated** information is that which the appraiser already knew or suspected before communicating with a party to the transaction (i.e., sale price).
- **Learned** information is that which the appraiser did not know or suspect before communicating with a party to the transaction (i.e., buyer motivation).

12

“directly or indirectly from a party...”

- **Directly** acquired information refers to that which flows from a party to the transaction to the appraiser (i.e., lease data or sales) May need to verify with a secondary data source or party without an interest in the transaction.
- **Indirectly** acquired information flows through an intermediary (i.e., MLS, data cooperatives, and other appraisers). May need to further verify from another source if reliability is suspect.

13

- FNMA Definition of Market Value:

“The most probable price which a property should bring in a competitive and open market under all conditions requisite to a fair sale, the buyer and seller, each acting prudently, knowledgeably and ***assuming the price is not affected by undue stimulus.***”

Implicit in this definition is the consummation of a sale as of a specified date and the passing of title from seller to buyer under conditions whereby:

- (1) ***buyer and seller are typically motivated...***

14

- What Comparable Data Needs Verifying?

- Sale price and financing terms
- Sale date and contract date
 - Contract for new construction may be months prior to closing; have market conditions changed
- Determine if arm's-length transaction
 - Does the transaction conform to the definition of market value



15

- What Comparable Data Needs Verifying?

- Motivation or conditions of sale
- Concessions, incentives, inducements to buy
 - When speaking to the seller, builder, or real estate broker, determine if concessions impacted the sale price
- Personal property included in the sale



16

- What Subject and Comparable Data Needs Verifying?
 - Condition, upgrades, functional utility
 - Be curious and get details

Public Remarks: PERFECT FOR YOUR HORSE! SITUATED ON ALMOST 4 ACRES OF LAND. FENCED! RARE RANCH WITH WALK-OUT BASEMENT WITH LARGE WOOD BURNING STOVE!! THIS GEM WILL SPARKLE WITH YOUR LOVING TOUCHES!! 40X80 BARN!! OFFER IN WR555 LENDER FOR SS APPROVAL

Quality or Construction	1	2	3	4	5
Actual Age	1996		1994		-0-
Condition	AVERAGE		AVERAGE		-0-
Above Grade	Total	Baths	Total	Baths	-0-

Listing Broker: The comparable required significant repairs and needed cleaning; had been neglected and was beaten up, had dog feces in all rooms, needed new flooring, drywall repairs and paint.

17

- What Subject and Comparable Data Needs Verifying?
 - Condition, upgrades, functional utility
 - Be curious and get details when the real estate broker uses the terms “remodeled,” “updated,” or “renovated”
 - Any deferred maintenance
 - Any updating needed
 - Any functional issues
 - Views



18

- What Subject and Comparable Data Needs Verifying?

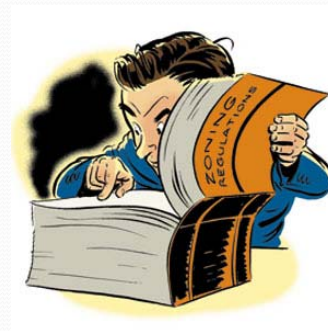
- Prior sale/transfer history
 - Clues to flipping schemes:
 - Same or similar names of people or LLCs
 - Relatively large increases in sale prices in short period of time
- Anything that may impact marketability and value
- Ask “Is there anything else that I should know about this property?”
- Adds support for your conclusions and adjustments



19

- Zoning

- The whole world is **not** zoned R-1
- Verify with the local municipality having jurisdiction
- Land use classification is **not** zoning
- Necessary to satisfy the test for legal permissibility in highest and best use analysis
- Surprise!!! The current use may be legal non-conforming or illegal; your client needs to know this



20

- With Whom Can You Verify Data?

- Parties to the transaction
 - Buyers and Sellers
 - Real Estate Agents
 - Attorneys
 - Lenders
- Others
 - Title companies
 - Managers and Tenants
 - Owners , Managers and Tenants of Neighboring Properties
- Consider the reliability of the source and the information



21

- Unresponsive real estate brokers

- Make multiple attempts
- Use email, either as a primary or alternative method
- Document your attempts to verify data



22

- If no response, refusing to take the time, or simply putting you off:
 - Strategies if the broker is not calling back:
 - Call and say “I want to talk with you about a listing,” but don’t reveal that you are an appraiser.
 - Call and don’t leave a message.
 - Joint Position Statement CP-30
 - Call their managing broker, explain the importance of verifying data and ask for their help
 - Refer the real estate broker to the Real Estate Commission

23

Did We Meet Our Expectations?

- Importance of Verification
- How Verification Relates to
 - Market Value
 - Highest and Best Use
- Verification Methods

24