



What the Mortgage Market Reads



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Mixed Views on Appraisal Trends For Purchase Mortgages as Home Prices Continue to Increase

Appraisals aren't causing significant closing problems for purchase-mortgage lending, although there are issues as home prices increase, according to responses to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

"Appraisals are mostly in line with contract prices," said Tom Popik, research director for Campbell Surveys. "However, appraisals for FHA mortgages and VA mortgages more often miss the contract price than appraisals for conventional mortgages."

Appraised home prices have tended to track with broader increases to home prices, according to real estate agents participating in the survey. An agent in California noted that selling prices are generally increasing, but at widely disparate rates based on location.

"This makes appraisals difficult in this area," the agent said. "If the lender can use an appraisal management service that has actual, local knowledge, the problems can be worked out."

Some suggested that FHA and VA appraisals were more conservative than appraisals for loans that will be held in bank portfolios or delivered to the government-sponsored enterprises. "Many FHA and VA appraisals are coming in under contract price while conventional loan appraisals are coming in as much as 10.0 percent higher," said a real estate agent in California.

Agents in a number of other states also reported that appraisals on government-insured mortgages were consistently lower than the contract price.

For home sales that closed in February after a delay, appraisal issues caused the delay in 8.4 percent of the instances, based on a three-month moving average, according to *HousingPulse*. That was down from an 11.2 percent share in February 2015. The declining trend in appraisal issues started before TRID disclosure problems began to account for more delayed closings.

Appraised home values in February were 1.99 percent lower than what homeowners expected, on average, according to Quicken Loans, which compares appraised values to what refinancing homeowners estimated

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their home was worth at the beginning of the mortgage process.

The results for February marked a reversal to the previous five-month trend of a narrowing gap between appraised values and homeowners' perceptions, according to Quicken.

As home prices increase, some sellers and buyers have made adjustments to ensure mortgage financing will be approved. "The appraisal didn't hit the required value, but the homeowner was prepared for a shortfall in appraised value and closed at the contract sales price anyway," said a real estate agent in North Carolina.

An agent in Colorado noted that appraisals are coming in at offer prices or higher. "However, most homebuyers are offering above the asking price, and bringing cash to the closing table if their appraisal does not come in high enough," the real estate agent said. ♦