

FHA, VA Appraisals Come in Lower Than Contract Price, Survey Finds

Although appraisals are mostly in line with contract prices, VA and FHA appraisals more often miss the contract price than appraisals for conventional home loans, according to real estate agents' responses to the latest *Campbell/Inside Mortgage Finance HousingPulse Tracking Survey*.

The difference gets no clearer than in California where many FHA and VA appraisals are coming in under the contract price. In contrast, appraisals for conventional mortgage loans are coming in as much as 10 percent higher, said a real estate agent in the Golden State.

"FHA and VA appraisals are more conservative than conventional," respondents observed.

There are a number of reasons for FHA and VA appraisals coming in lower than conventionals, industry participants say.

Although the appraisal process is the same for both government and conventional mortgage programs, FHA and VA appraisal rules require much closer scrutiny of the property to determine whether certain repairs must be made before it can be sold.

In addition, no two appraisers are alike. Some appraisers will not give value to upgrades, such as granite countertops or hardwood floors, while others do.

Another reason is when an out-of-area appraiser is providing the appraisal, the result is more unpredictable, some agents say. More often, local appraisers using familiar comps produce more reliable values, they noted.

Furthermore, selling prices are generally increasing, but at widely disparate rates, observed an agent in California.

"If the lender can use an appraisal management service that has actual, local knowledge, the problems can be worked out," he said. "In the vast majority of cases, agents do not know whether a lender plans to hold the loan in portfolio or sell into the secondary market."

Homebuyer Financing

As of February 2016, based on a three-month moving average, FHA was the leading choice of financing for 39 percent of first-time homebuyers while 10 percent opted for VA, according to the *Campbell/IMF* survey.

On the other hand, 70 percent of investors brought cash to the table while a mere 2 percent opted for FHA.

FHA and VA were neither the first nor the second choice of current homeowners, although 14 percent sought FHA financing and 8 percent chose VA to finance their home purchase.

The average original closing times for FHA, VA and conventional conforming loans were 40-45 days, between 25-30 days for cash deals, and 45-50 days for jumbo conventional loans.

Mortgage-documentation problems were the leading cause for delayed closings. ►