

## **Comparable Sales: Inspection and Photographing – What are the Rules?**

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Years ago the standard of practice was that no comparable photographs were taken. It was expected that the appraiser viewed comparable sales from the street, but photos were not submitted. The certifications in today's appraisal reports did not exist, and there was no USPAP. The advent of comparable sale photographs as an exhibit to an appraisal report results, at least in part, from the practice of not driving the comparable sales. Simply, the requirement for photographs forced appraisers to prove what had been taken for granted previously – that they did in fact drive the comparable sales. As technology evolved and reports became more detailed, additional photographs of views, exterior amenities and adverse influences also became common, and are now required.

In recent years, a trend has developed where residential appraisers don't inspect or photograph comparable sales at all; they just use MLS photos instead. They justify this with disclaimers about how the MLS photo better depicts the property on the day it sold, or that they could not get a good view from the street because of sunlight or trees, or even that the turn time requirement was so short that they simply didn't have time to drive the comparable sales. What scope of work did you agree to at the time of assignment?

Let's face it; there very good quality exterior and interior photographs in most MLS systems today that enhance our ability to make meaningful comparisons of a comparable sale to a subject property. How often have you heard the concern that we go through the subject from stem to stern, and then only see the comparables from the street, thereby limiting the ability to really compare properties? Before the advent of digital photography, MLS systems had no photographs at all, much less the detailed interior photographs that are common today.

**Is an actual drive-by inspection of comparable sales required?**

First, let's establish what is required in most assignments for residential mortgage lending. There are two main sources for determining the requirements for developing and reporting a residential appraisal where mortgage lending is involved: The Uniform Standards of Professional Appraisal Practice (USPAP), and the Government Sponsored Enterprise's (GSEs) Selling Guide or Seller/Service Guide. These guides drive the appraiser's scope of work decision.

From a USPAP perspective, comparable sales are not directly addressed. The appraiser's Standard 2-3 certification requires the appraiser to indicate whether or not they inspected the subject property but does not reference comparable sales at all. Some residential appraisers take this to mean that USPAP does not require them to inspect comparable sales. If the assignment does not involve the use of a Fannie Mae form, this may be correct. (What scope of work did you agree to at the time of assignment?)

However, when agreeing to complete an assignment using GSE forms (not even necessarily an assignment that will be sold to one of the GSEs), an appraiser is agreeing to the requirements of the form, making the requirement to drive the comparable sales a requirement for compliance with the USPAP Ethics Rule. The use of GSE forms, even when the appraisal report is not destined for one of the GSEs could be viewed as misleading if not completed to GSE guidelines. Many other secondary market participants simply adopt GSE guidelines rather than write their own.

Fannie Mae Form 1004-B, the Appraiser's Scope of Work is clear: The appraiser must, at a minimum: (1) perform a complete visual inspection of the interior and exterior areas of the subject property, (2) inspect the neighborhood, (3) *inspect each of the comparable sales from at least the street*. There is no certification regarding the photographs.

The Fannie Mae Selling Guide (B4-1.2-06, Appraisal Forms and Report Exhibits) states that "Acceptable photographs include clear, descriptive, original images from photographs or electronic images, copies of photographs from a multiple listing service, or copies from the appraiser's files."

The requirement for the photos is that they must be:

- Clear, descriptive, original photographs showing the front, back, and a street scene of the subject property and the front of each comparable sale.
- The subject and all comparables must be appropriately identified. Photographs of comparable rentals and listings are not required.

While the form 2055 instructions require photographs of the subject, there are no required comparable photographs when using the 2055 form, original or otherwise. However, the requirement that the comparables be inspected, at least from the street remains. If you really drove past the property with enough daylight to meet the requirement of having adequate information about the physical characteristics of comparable sales to develop the appraisal, why not take the photographs?

Can I re-write the certification indicating I did NOT inspect the comparable sales?

When using the Fannie Mae forms and signing the certification, you cannot override anything in the certification; you can add to things like Scope of Work but you can never diminish the certification itself. Fannie Mae instructions are abundantly clear:

"Modifications, additions, or deletions to the intended use, intended user, definition of market value, or assumptions and limiting conditions are not permitted. The appraiser may expand the scope of work to include any additional research or analysis necessary based on the complexity of this appraisal assignment. Modifications or deletions to the certifications are also not permitted."

### Do I need to re-inspect the comparable sale each time I use it in an assignment?

We have established that exterior inspection of the comparable sales from the street is not optional in residential lending assignments where the scope of work calls for inspection of comparable sales. What we are now faced with is a judgment decision as to whether or not revisiting a property that has recently been seen is required.

First, I think that some of us have become complacent about the whole comparable sale process. The objective is to identify the most similar properties in the market that have sold as a benchmark for what a given subject property should sell for in the market, not necessarily the first three “sales” that fit. Competency involves judgment. The selection of comparable sales is a judgment process. Perhaps the most important reason for viewing the comparable sales is to make specific judgments as to how to given sale compares to the subject.

There are specific units of comparison that need to be identified and analyzed. The fact that you have seen a given comparable sale recently does not ensure that the specific units of comparison that were most important in the last assignment are also the most important units of comparison in the next assignment. It may be that they are the same if the two different subject properties are about the same. In neighborhoods where a high degree of homogeneity is present, sound judgment may result in using a sale from a recent assignment without revisiting it. However, in cases of complex property, or a comparable sale with some form of external obsolescence, it may be necessary to revisit the comparable sale in each assignment in order to ensure that the most critical units of comparison are being given proper treatment in the context of the subject property.

For example, you may have a subject property on an arterial street and three very good comparable sales, also on similar arterial streets. This might result in no adjustments for the external influence of the arterial street. Next week’s subject may be similar in all other respects, but located on a quiet, dead-end street. In this case, it might be helpful, if not necessary, to revisit the same comparable sale in order to properly assess the magnitude of difference between it and the subject property. Perhaps in a semi-rural area where a subject property has additional improvements such as a barn, arena, detached shop or auxiliary living unit, the amenity contribution may be a critical component to the total value. Revisiting the comparable sale may be an important step in properly assessing the true comparability of the property to the subject. And I’m sure many of us have had the experience of looking at a given sale on paper and feeling that we had a solid comparable, only to drive the property and realize that the same buyer would never consider it a reasonable substitute for the subject.

### Business Decisions versus Appraisal Decisions

There may be sound business reasons for re-taking your comp photos, aside from the sound appraisal reasons. I’ll be among the first to stand up and say that we cannot let our

clients run our businesses, but there are times when it is wiser to anticipate the problems that can arise and head them off than to engage your client in a battle of wills. I try to keep in mind that part of my ability to gain their business lies in being someone who is not difficult to do business with.

If you took a photograph of a comparable sale in March with snow on the roof, and now it is May and the flowers are blooming, perhaps the wise choice is to re-take the comparable sale photograph and spare yourself the exercise of explaining the circumstances to an underwriter or reviewer. In the end, it may take more time to diffuse the problem than it would have to simply re-take the photograph. Beyond that, unless you are taking NO new photographs for the assignment, you should already be in the area. I would also argue that if the distance is so great as to make revisiting the comparable sale burdensome, it may just not be comparable anyway.

There are also occasions when a gated entry, no trespassing sign, or other obstacle prevents access to the comparable sale. Under these circumstances, I have developed the practice of including the photograph of the gate or sign in the comparable sale photograph page, and then include the MLS photo on an additional photo page with an explanation. This eliminates the phone calls, and makes clear that the sale was driven and inspected as well as it could be from the public street. Supplementing a report with MLS photos is also an excellent way to illustrate why your photo may show things that didn't exist at the time of sale like a fence, barn, or other obvious exterior improvement.

Another advantage of MLS photos is the number and quality of the interior photos that are available. These can go a long way to helping you defend quality and condition adjustments in an assignment. Keep in mind too, that reviewers often have access to these photos. If you fail to note a significant feature or difference that could be easily identified through these photos, it may come back to bite you.

### Conclusion

The certifications we sign attest to the fact that we did in fact inspect the exterior of the comparable sales, but they do not say when we inspected them. Good judgment is essential. The certifications also indicate that the signer inspected the exterior of the comparable sales, not an assistant or another appraiser in your office. The source of the comparable sale photographs can be your original photograph, another appraiser, or the MLS. Again, use good judgment and explain your decisions. And remember, if the MLS photo isn't the right house, it is still your certification.