

U.S. Treasury Bonds			
Maturity	Yield	Last Week	Last Month
5 Year	3.41	3.37	3.67
10 Year	4.22	4.21	4.48
30 Year	5.01	5.03	5.21

Market Value vs. Appraised Value

In the simplest of terms, a home's "market value" is based on the perception of the buyer...it is the amount of money the market is willing to pay for property. The "appraised" value is the unbiased value of the property as determined by a bank or lending institution.

Sometimes, most often in a situation with multiple buyers or in a hot market, offers made on houses will sometimes be higher than the original listing price. In other occasions, buyers may fall in love with a house so much that they are willing to risk that it might not appraise at the purchase price. Regardless of the reason, it is a rare occasion when property appraisals equal that of market value.

But why?

Appraisals are performed for lenders so that they can justify the sales when valuing it as collateral for a mortgage loan. With appraisals, most credibility is given to historical data or comparative sales (which are sales that have closed in the last four to six months).

There are three primary approaches that an appraiser bases his professional opinion:

- **Direct Comparison Approach** - This approach utilizes the theory that a willing buyer and willing seller of comparable properties will provide a good estimation of the value of the property under review. The appraiser will review the selling price and asking (listing price) of equivalent properties.
- **Cost Approach** - This approach estimates the cost to build an identical home or building at current construction costs less any accumulated depreciation. This value is then added to the value of the underlying land to arrive at an estimation of market value.
- **Income Stream** - This approach is generally used to estimate the value of income producing properties by calculating the present value (in today's dollars) of future income streams generated by the property if the property is put to its "best use."

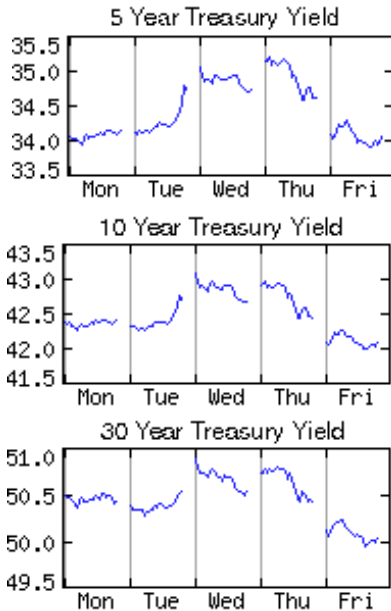
The appraiser will arrive at his or her estimated opinion of value by selecting the most appropriate approach based on the nature of the property that can be supported by relevant market data.

What happens when a buyer knowingly bids so high that he risks the appraisal coming in too low? If you are a seller caught in this situation, you may want to prepare by making it clear that appraised value is not a contingency of the sale. You are trying to prevent an offer almost automatically disqualifying buyers with minimal down payments.

Why? Because a low appraisal value will almost always affect their ability to qualify for the loan if the bank doesn't feel that the value is high enough to justify the mortgage. Lenders typically base a loan amount on either the appraised value or the purchase price (whichever is less). If a buyer is applying for a 10%-down mortgage and the appraisal comes in too low, the loan amount will be calculated based on the appraised value. In this example, the required down payment would most likely be ten percent of the appraised value, plus the difference between the appraised value and the purchase price. If the buyer does not have the additional cash available, or is "surprised" by the low appraisal, the transaction is in jeopardy. So, before you accept that super high offer, you might want to make sure that the buyer has enough cash available to make a larger down payment if necessary. If you are the buyer and you absolutely must have the home even at a higher price, you should always be prepared for the possibility that you may have to make a larger down payment than anticipated.

The purpose of this newsletter is to stimulate thought for our clients and those professionals we network with. One should consult with a qualified real estate professional prior to implementing any real estate planning strategies. If you are an mortgage planning, estate, tax or insurance planning professional receiving this newsletter, please call our office and introduce yourself to us. We are always seeking to grow our referral network and expose more service professionals to our client base.

Treasury Market Summary:



Economic Indicators for this week that could impact the mortgage or real estate markets include...

Building Permits	Aug 17
CPI	Aug 17
Housing Starts	Aug 17
Capacity Utilization	Aug 17
Industrial Production	Aug 17
Initial Claims	Aug 19
Leading Indicators	Aug 19