DIVORCE REAL ESTATE
BULLETIN

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THE ART AND SCIENCE OF APPRAISALS IN DIVORCE

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Everything can hinge on the value of the house. From equity buy-outs, division of retirement accounts, and support allocation, if a spouse wants to keep the house, it can be the linchpin for all asset and monetary division. And yet, it's one of the most contested elements in a case.

Just when you thought you'd put a lid on the battle of establishing a value for the house in divorce, your client calls you in a panic because they got a new appraisal that debunks everything they'd agreed to. Don't worry—we will explain why that happens, and offer a solution to address it.

Why are appraisals so different?

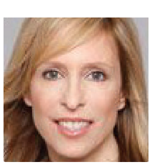
In any given neighborhood, because no two properties are alike and the market is always fluctuating, there is a range of value. Family law appraisals that attorneys typically order often utilize the highest possible value approach, which places the emphasis on the top-end of the value range. "What is the most a buyer would *possibly* pay for this house?" is the lens, and the data then supports that approach. This appraisal does not have to follow federal lending guidelines, such as Fannie Mae, Freddie Mac, FHA, or VA, which use a different lens.

These two appraisals will likely lead to different valuations. Often, the family law appraisal will trend higher, but not always, depending on when the analysis is performed. Overall market fluctuations can be a slower moving needle, but in one single neighborhood, one or two comps can skew the data more dramatically. A seller who has an urgent need to sell may slash their price in lieu of time, which affects the whole neighborhood.

> *"A mortgage appraisal is the eyes and ears of the mortgage lender for the sole purpose of evaluating their risk."*

A mortgage appraisal is the eyes and ears of the mortgage lender for the sole purpose of evaluating their risk. As such, appraisers must perform a conservative analysis and instead of taking the highest possible approach, they analyze the most probable. So the question here is "What is a buyer *most likely* to pay for this house?" Appraisers must follow the federal guidelines in this analysis.

The solution: Don't let the mortgage appraisal—or any singular statement of value—unravel the negotiation. A CDRE will perform a comparative market analysis as well to give another data point. Before the mortgage appraisal is performed, explain why it might come in lower than the other appraisals, so that your clients have context: the mortgage lender is incentivized to mitigate its risk, so these appraisals tend to be conservative.



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THE CONFLICT SPECTRUM

LAUREL STARKS, CEO & Founder, The Ilumni Institute

Everyone knows a Realtor. In fact, according to the National Association of Realtors, there is one Realtor for every four homes that sold last year. So it is not surprising that divorcing clients will likely have a friend, relative, or friendly neighbor who they want to represent them in the sale of the house.

The Conflict Spectrum, a method of categorizing levels of conflict, was developed by The Ilumni Institute. This tool demonstrates the difference that the degree of conflict can make in a divorce case, and acts as a means to gauge the level of expertise required of the listing agent who is handling the sale of the house.

Low Conflict: There is a significant amount of trust between the parties. The sale of the house should proceed smoothly; a friend or relative will probably work out just fine, as long as they are accepted by both parties.

Medium Conflict: Trust starts to erode and an undercurrent of tension is fueling emotion. The house can become a battleground. Maintaining control of a case is a daily chore, but it is on track. A highly trained agent is needed to prevent and mitigate further conflict, because there is a great risk that these cases can go off the rails.

High Conflict: Trust is long gone. Restraining orders, substance abuse, and personality disorders can run the show in these cases, and the house is a pawn in a bigger game of suffering creation. Wrangling through negotiations of any issue, big or small, requires not only patience, but a superior skill set.

Shockingly, 50% of divorce listings fail to close. Certified Divorce Real Estate Experts (CDREs) exist to change that statistic. Through advanced conflict training, top Realtors become conflict experts. When you have a case that is at risk of spiraling out of control, or is already identified as high conflict, make sure you have the right warrior by your side so that the sale of the house is handled swiftly, and with skill, expertise, and integrity.

What is a CDRE?

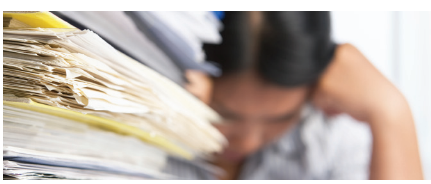
A CDRE handles the sale of real property in family law cases as a neutral expert. A CDRE has knowledge and special skills to handle the effects of the family law process on divorce listings.

Complimentary Services:

- Title Documents
- Property Profiles
- Chain of Title
- Expert Advice to Attorneys with Solutions to Real Property Issues

CASE STUDY

CHASING AFTER APPROVAL



CLIENT SCENARIO:
Mary was pre-approved for the financing necessary to buy out her ex-husband with the following scenario:

- Primary income of $3,000 a month
- Spousal support of $1,000 income a month (which for lending purposes, is grossed up 25% to $1,250 since it is non-taxable and there is evidence of 6 months of payment)
- Total income of $4,250 per month
- Debt of $265 a month

This allows her to qualify for the new mortgage of $200,000

- With a 3.99% interest rate and a credit score of 720, her payment would be $1,278.68, including principal, interest, taxes, and insurance

However, several things happened during the divorce process.

- She was ordered to pay her ex-husband a $150,000 equalization payment
- The spousal support was awarded to her at a level of $500 a month
- She charged attorney fees to her credit card

As a result:

- Her income projection lowered ($3,625, based on $3,000 a month job and $625 from support, which is $500 increased by 25%)
- Her debt increased to $589 a month
- Her new loan amount would be $350,000. With her new higher interest rate of 4.875%, due to increased debt and changing market conditions, her new monthly payment comes to $2,044.93. She cannot qualify for this amount anymore.

CONCLUSION:
The client no longer qualifies with her higher debt to equity ratio, which exceeds acceptable levels. The changes were impacted by a change in rate due to market volatility and a change in loan structure based on the divorce settlement. In addition, income was less than anticipated, and the loan amount was larger than expected due to larger equalization payment owed.

TAKEAWAY:
Involve a mortgage lender with a specialization in divorce early in the process. Underwriting guidelines are unique in these situations, so consulting with someone who is familiar with them is advised.