

# Kirchmeyer Klips

"A publication for people in the mortgage industry"

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(2004 Annual Golf Outing)  
Glen Oaks, NY

### June 9...MBA of CNY

(5th Annual Clambake & Past Presidents Night)

### June 15-19...NYSCUL - 2004 Annual Convention

(New York State Credit Union League)  
Anthony Acosta & Paul Oswald Exhibiting  
Saratoga Springs, NY [www.nyscul.org](http://www.nyscul.org)

### June 20-30... PMC-2004

(Predictive Methods Conference)  
Jim Kirchmeyer & Tatiana Nevmyrych attending  
Newport Beach, CA [www.pmc2004.com](http://www.pmc2004.com)

### July 28-30...INMAN NEWS- Real Estate Connect

San Francisco, CA [www.inman.com](http://www.inman.com)

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Issue #70

INSIDE...



1 • square footage

2 • footage (cont.)  
• toilet overflow

3 • toilet overflow  
• employee feature

4 • menu of services  
• calender of events

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# Square Footage

## What do you mean it doesn't count?

by John Willians

**H**ave you ever bought or sold a home and had your Real Estate agent tell you that you had 2000 square feet, only to have the appraiser say, "nope, you have 1000 square feet ....and a finished basement?" Rest assured, everyone involved does sympathize with you. Also rest assured that the house is not being penalized for having some of the finished living space in the basement (below grade area). Indeed, everyone is conscious of the issues involved. As home sellers and homebuyers become more savvy, all have become aware that square footage is a key factor in the sales price. Understandably then, the seller wants as much counted as possible while buyers do not want to pay for something they didn't get. So, while the whole process is confusing and appears arbitrary, there actually is a method to the madness.

What started the whole business was the Federal National Mortgage Association, which goes by the acronym FNMA, but which some creative Washington wit has dubbed "Fannie Mae." Fannie Mae is the reason that you can easily sell or buy a

house. Why? Because this quasi-governmental organization was established to buy individual mortgage notes from lending institutions and then package blocks of mortgages into single securities instruments for sale to investors. But, to be able to do this, the entire lending industry had to change the individualistic way it did business.

That is, in the "old days," mortgage loans were made primarily by Savings and Loan institutions which were operated from one location in the community and had long-term staff and officers who knew the community very intimately. Each of these S&Ls made loans based upon their own loan standards and as often as not, their personal knowledge of the borrowers. The S&L made loans and kept them on the books for 20 or 30 years. Therefore, unless deposits grew, the number of loans any one S&L could make was limited.

Then Fannie Mae came along and said, "We'll buy your loans, thus returning your capital (at a profit) so you can go out and make other loans"—Practically an instant success because this made mortgage loans available on an unprecedented scale. This in turn

(continued on page 2.)



# square footage

(continued from page 1.)

birth of the residential appraisal industry as we know it today.

However, there was a price to pay. In order to package mortgage notes into a homogeneous block, all had to be written using the same guidelines for loan-to-value ratios, for income ratios, for credit worthiness, and for how a house was measured, and so forth. Thus the phrase conforming loan was created. Don't confuse this with conventional loan. The phrase conventional loan is used to indicate that the loan is not FHA or VA backed.

So, Fannie Mae, not knowing a barn from a basement, asked the American National Standards Institute (ANSI) how to measure square footage. ANSI said, in effect, OK, since the majority of basements in the USA are surrounded with dirt (below grade), and have no windows, they are basements regardless of what's there and we don't care if there are exceptions because we want a one-size-fits-all standard."

Therefore, everything above grade was to be counted as Heated Living Area (HLA - often referred to as GLA or Gross Living Area) if finished (walls, floor, and ceiling), heated from the same source, and is all connected. How to measure these areas was made relatively easy. Measure around the perimeter and include everything inside; halls and closets, even the dead space inside the studwalls. Above grade laundry rooms and furnace rooms are included as long as they are heated, finished, and attached.

The stairway from the first floor to the second is basically counted twice, once for each floor; the way to conceptualize this is to think of the stairs as part of the second floor and think of the space below the stairs as storage for the first floor the important criterion is that both spaces can be used (ignore the fact that there is not much useable space at the back of the understair area). Following this logic, atriums or two story open areas next to stairs can be only be used for one of the floors, so these areas are only counted once. Apply the same yardstick to cathedral and vaulted ceilings. This is basically how everyone measures HLA (or GLA). Note that while some of this might not seem to make sense, the idea was, make it as sim-

ple as possible. If, for example, we measure studwall cavi-ties for everyone, then everyone gets the same credit. Now, while there are some other minor "how-to's", if you understand the above, you have mastered the basics.

However, just when you thought it was getting simple, we move on to the so-called bonus room over a garage or in an attic. Just like basements, homeowners and builders "discovered" that these areas provide cheap ways to expand space. So, the first criterion for including this space is whether or not it is accessible through finished space. If not, it's not part of the counted square footage, but rather, is a bonus room.

Then getting past that, comes the issue of height less than 84" (seven feet) and it's bonus area, not heated living area. That part is pretty logical; any thing under seven feet and you would feel like you are in cave. There is also a certain logic here; buyers will look at a low ceiling area and say, "Whoa, I don't like that, I may buy the house, but I'm not going to pay full market value for that portion."

(continued in July 04.)

About the author: John C. Williams operates his business, WNC.RE.Source, Inc. in the Asheville, NC area of western North Carolina. John is a licensed Appraiser, Home Inspector, Real Estate Broker, and General contractor. He can be reached at 828.628.2727 or jcw2727@charter.net.

By Barry Stone Inman News

## Toilet inspector overlooks overflow

Although we are not home inspectors, appraisers are routinely testing toilets for functionality on HUD inspections. Here is a quick story from a disgruntled buyer:



Dear Barry,

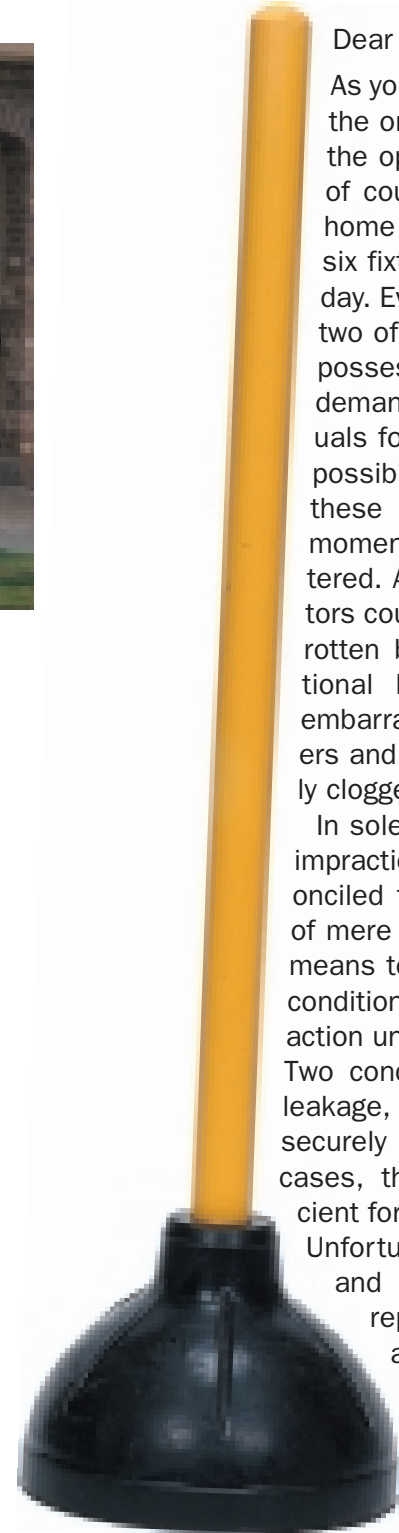
Before we bought our house, our home inspector tested the toilets and reported that they were "functional." Unfortunately, these tests were just "water" flushes, which failed to tell the whole story. After moving in, we had immediate problems with the toilet in the master bathroom. The fixture works OK with liquids but simply does not dispose of solid waste. In fact, the first time we flushed it, the bowl overflowed you know what onto the floor. Why don't home inspectors check for this? Byron

Dear Byron,

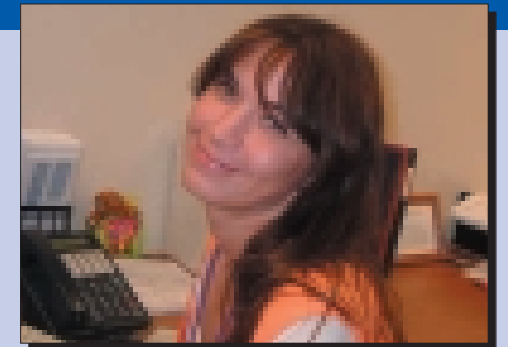
As you've just discovered, a real-life test is the only reliable method by which to verify the operational adequacy of a toilet. This, of course, poses a practical dilemma for home inspectors who may test as many as six fixtures in the course of a typical workday. Even with the inducement of a glass or two of prune juice, no inspector is likely to possess the intestinal capacity for such a demanding regimen. And those rare individuals for whom such prodigious outputs are possible would be challenged to coordinate these productions with the unpredictable moments when each toilet would be encountered. As an alternate test material, inspectors could stock their trucks with a supply of rotten bananas, but this would pose additional logistical difficulties, including the embarrassment of explaining to buyers, sellers and agents why the toilets were suddenly clogged with chunks of tropical fruit.

In solemn recognition of these unfortunate impracticalities, home inspectors have reconciled themselves to the routinely banality of mere water flushing. Without the practical means to repeatedly simulate optimum flush conditions, they merely observe the flush action under Number One rather than Number Two conditions. They check for evidence of leakage, and they ensure that each fixture is securely attached to the floor. In nearly all cases, these inspection methods are sufficient for identification of operational defects.

Unfortunately, your case was one of the rare and untidy exceptions. Fortunately, the repair process is likely to be simple and relatively inexpensive. The cause of overflow may simply be routine congestion of the drain. If plunging doesn't clear the line, have it checked by a qualified plumber.



## Employee Spotlight



### Fawn Brown

**WORKS FROM:** Buffalo Office

**PHONE :** 716-558-2800 Ext 125

**E-MAIL:** fawnb@kirchmeyer.com

**POSITION:** Accounting Specialist

**JOB DUTIES:** Fawn was hired in October 2002 as an Accounts Receivable Clerk. She not only processes customer billing but also researches collections and billing issues. Her scope of work has been expanded to include Accounts Payable where she enters bills from vendors, and cut checks weekly.

Our Subcontractors continue to help us grow, and Fawn is instrumental in processing the payroll which includes running commission reports, processing appraiser fees and corrections, and transmitting the payroll to our payroll company.

When not at work, Fawn enjoys gardening, painting, decorating, walks with her dog, Daily the dalmatian and spending time with family and close friends.

