

Helpful Tips

What Consumers Need to Know About Real Estate Appraisals

Appraisers have been wrongly accused of prolonging the nation's real estate downturn by developing value opinions that are below proposed sale prices. Specifically, they've been unfairly criticized for including comparable sales in the valuation process that provide opinions that are below the cost to build. Others, including some real estate agents, mortgage brokers and home builders, have used the Home Valuation Code of Conduct and Interagency Appraisal and Evaluation Guidelines as a scapegoat for natural declines in the real estate market.

Credible and realistic value opinions help to stabilize real estate loans and investments, which promotes socially desirable real estate development. Appraisals are particularly valuable because they are an objective and unbiased source of real estate information. Unlike some other real estate professionals, the appraiser performs a professional service for a fee rather than for a commission contingent on the value conclusion, the approval of a loan or the eventual sale of the property.

To help consumers understand the role of appraisals in the lending process, the Appraisal Institute offers these helpful tips.

- 1. Understand the role of mortgage appraisals.** Real estate appraisals are critical components in real estate financing and risk management. Lenders order appraisals to get a stronger understanding of risk relating to the underlying collateral offered in a mortgage. Lenders want to know how much that property would bring in an open market so they can ascertain that the loan is well enough supported by the collateral. Mortgage appraisals are not technically provided to confirm a sales price, although they can help both lenders and consumers in making sound financial decisions. It serves neither the lender nor the consumer to enter into a mortgage loan that is more than the value of the property.
- 2. Make sure your lender hires a qualified appraiser, such as a designated MAI, SRPA or SRA member of the Appraisal Institute.** The best way to combat potential problems with appraisals is to ensure the appraiser hired by your lender is highly qualified and competent. Today, many lenders utilize third party management companies to conduct administrative functions. These firms often seek out the lowest cost service providers, not necessarily the most qualified. You have every right to demand the use of a highly qualified appraiser, someone with field experience in your market and knowledge and experience to handle the assignment properly. A qualified appraiser knows how to conduct a thorough market analysis and make appropriate adjustments if/when distressed sales are used as comparables. Ask the lender for the qualifications of the appraiser and specifically, whether they are professionally designated by a professional appraisal organization like the Appraisal Institute. Remember that your home purchase is one of your most important lifetime investments. The money spent on a quality appraisal is well spent.
- 3. Accompany the appraiser during the inspection.** Contrary to incorrect interpretations of appraiser independence requirements, appraisers welcome information that would assist development of credible assignment results. Consumers can accompany appraisers when conducting the property inspection and may provide the appraiser with any information they consider important. Ask your lender for permission to do so, and confirm the appointment. Most importantly, take note of whether an adequate inspection is performed. Did the appraiser spend enough time at the property to observe important features or improvements or potential problems?

4. **Ask for a copy of the appraisal report.** Even though the appraisal is ordered to help assess lender collateral risk, consumers have a right to, or can obtain a copy of, the appraisal. Specifically, federal law requires lenders provide routine delivery of the appraisal to consumers whether credit is granted, denied, or the application is withdrawn, or alternatively, upon request within 30 days. A mortgage appraisal should not be used for any other purpose.
5. **Examine the appraisal report.** Although appraisal review is best performed by qualified appraisers, you can examine the appraisal for potential deficiencies. According to "Appraising the Appraisal: The Art of Appraisal Review," 2nd edition, common errors in appraisals include: misuse of adjustments to comparables, disregarding special financing and concessions, or miscalculation of gross living area. Ask yourself: do adjacent homes add or detract from the value of the subject property? Is the subject property equal to or lower in price than surrounding homes? Does the floor plan have any functional problems? Does the house (particularly the kitchen and bathrooms) require major remodeling to make it comparable with similar homes in the same price range? Is the number of bedrooms and baths in the home comparable to similar homes in the same price range? Did the appraiser perform an adequate review?
6. **Appeal the appraisal.** Or ask your lender to review the appraisal report. Most lenders have appraisal appeal procedures, known as "Reconsiderations of Value." If you are aware of recent, comparable sales information or items that may not have been available or considered by the appraiser, provide those to your lender.
7. **Ask your lender to order a second appraisal by a qualified appraiser.** If problems were found with the first appraisal, you can and should obtain a second appraisal. You should see the importance of hiring a qualified appraiser by now; make sure your lender uses a qualified appraiser the second time, if they did not do so the first.
8. **File legitimate complaints** with the appropriate state appraisal board or professional appraisal organizations. Lenders are required under federal law to report legitimate complaints with appropriate regulatory authorities. State appraiser regulatory authorities also accept complaints from consumers and some states accept them anonymously. To contact the appropriate appraisal board, visit <https://www.asc.gov/State-Appraiser-Regulatory-Programs/StateContactInformation.aspx>. An additional benefit of using a professional designated appraiser is that a referral can also be made to the professional appraisal organization for appropriate ethics and counseling of the appraiser. To make a referral about an Appraisal Institute member, visit the Appraisal Institute Professional Practice Center at <http://www.appraisalinstitute.org/ppc/ethics.aspx>.