



***The Truth about Appraisals:
Knowing the Guidelines Solves the Mystery***

Consumers are often baffled by the appraisal process. They may feel their home is worth a higher dollar amount, and the appraised value doesn't always make sense to them. It is important to know that appraisal guidelines are dictated by the lenders, and in some states, it is a requirement to also disclose what the appraisal will be used for because there are different rules to follow depending on the purpose of the appraisal.

In effect, lender guidelines force the appraiser to put a fair market value on the home based upon comparable sales in the same area, and the home must be bracketed in size and value. For example, there is no set dollar figure associated with a great view, pool, spa, bathroom upgrades, etc. If a homeowner installs a custom pool that cost them \$30,000, but the local marketplace supports the value of a pool at \$15,000, then that item will be bracketed as [\$15,000] on the appraisal.

Upgrades can usually be expressed at full value in newer homes, because the only way to get those upgrades was to put more money into the cost of building the home. On the other hand, the upgrading or remodeling of an older home is rarely reflected in full in the final appraisal. This is because the home had value in its original condition, and again, the value of the upgrades must be supported by comparable examples within the same marketplace.

These comparisons must be drawn from current market activity within the last six months, and some lenders will want to look at both closed and pending sales, to see if there is any room for negotiation. This is a safeguard to prevent appraisers from attaching too high a value to the home in question. This guideline further states that appraisers can only base their opinion on the value of homes that have actually closed escrow. Any supporting comparison from pending sales will reinforce the reference to the closed sale given.

However, when property values are increasing drastically and rapidly within a marketplace, the appraiser is generally permitted to make a concession and put more weight on the evidence provided by comparisons to pending sales and listings, allowing for a "real time" appraisal.

Although there is no formal standard to speak of, most lenders give the appraiser a 5% margin of error. If the file is reviewed and the appraiser is off by 8%, there is a good chance the value will be cut by the full 8%. It is in the best interest of both the appraiser and the homeowner not to try to push the value up higher than the market will support, otherwise the property evaluation would then be exposed to a severe appraisal review.