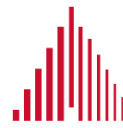


## What Consumers Need to Know About Real Estate Appraisals and Appraisers

*Credible and reliable opinions of value help to stabilize real estate loans and investments. 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. In some cases the appraisal may not match the contract price. But just because an appraisal comes in below – or above – the contract price doesn't mean it's flawed. The agreed-upon contract price may be above market value, for example. In those situations, the buyer and seller often renegotiate the contract at more favorable or balanced terms.
2. **Make sure your lender hires a qualified appraiser, such as a designated MAI, SRPA, SRA, AI-GRS or AI-RRS 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. The homebuyer can ask whether the appraiser is directly engaged by the bank or whether the bank utilizes an appraisal management company, and what their procedures are for engaging qualified appraisers. 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. Ask the lender for the qualifications of the appraiser and specifically, whether they are professionally designated by a professional appraisal organization such as 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 the development of credible assignment results. If lender policies permit, 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.** Homebuyers have a right to obtain a copy of the appraisal report. Even though the appraisal report is ordered to help assess lender collateral risk, buyers are entitled to a copy of the appraisal report. Federal regulations require lenders to provide property buyers with free copies of appraisal reports no later than three days before the loan closes. Homebuyers and sellers should first understand what an appraisal is and how it's used. Real estate appraisals for mortgage finance applications are prepared for the bank or financial institution so they can better understand the collateral risk in making the loan. This can be confusing, because homebuyers typically pay for the appraisal and receive a copy of it.
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," 2<sup>nd</sup> 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 inspection?
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 request that the lender 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 individual, visit the Appraisal Institute Professional Practice Center at <http://www.appraisalinstitute.org/ppc/ethics.aspx>.

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