Appraisal Institute®

Professionals Providing Real Estate Solutions

Don't Shoot the Messenger

Appraisers Not at Fault for 'Low' or 'High' Home Values

Many in the real estate industry sometimes claim that appraisers are at fault for producing opinions of value that don't match a home's listing or contract price. In fact, appraisers undertake thorough research and thoughtful analysis in order to develop reliable, credible opinions of value.

Appraisals aren't intended to confirm a home's sales price.

Appraisals completed for mortgage transactions are used to assist lenders in making lending decisions. Buyers and sellers often have emotional value attached to a home or are unaware of the market. They shouldn't assume an appraisal is somehow "wrong" if it doesn't match the listing or contract price. There's no reason to assume the contract price is the "correct" price simply because it's higher (or lower) than the appraisal.

Appraisers don't set the real estate market; they reflect what's happening in the market.

Think of the appraiser as a mirror, reflecting the market. Reliable, credible opinions of value help stabilize real estate loans and investments, promoting socially desirable real estate development.

Appraisers typically work for lenders – not buyers or sellers.

The appraiser's client for appraisals completed for mortgage transactions typically is the lender – not the buyer or seller. Lenders order appraisals to get a stronger understanding of risk relating to the underlying collateral offered in a mortgage. Neither the lender nor the consumer benefits by entering into a mortgage that is more than the value of the property.

Appraisers are independent, third-party experts with no motive to be biased.

Appraisers are particularly valuable because they are an objective and unbiased source of real estate information. Unlike some other real estate professionals, appraisers perform a professional service for a flat fee – rather than for a commission contingent on the value conclusion, the approval of a loan or the eventual sale of the property.

Appraisals sometimes are assigned to the least qualified, least competent appraisers.

Federal regulations and policies require a "firewall" between appraisers and lenders. To perform this "middleman" function, lenders often turn to appraisal management companies. Many AMCs' business models are based on keeping as much of the appraisal fee as possible and paying as little as possible to the appraiser performing the appraisal. This can lead to the least qualified, least competent appraisers – including those from other cities or even other states without sufficient knowledge of the local market – being hired to perform complex appraisals.

Competent and qualified appraisers – such as Designated members of the Appraisal Institute – should be hired for difficult assignments.

Designated members of the Appraisal Institute have achieved levels of education, experience, standards, ethics and peer review above those of licensed or state certified appraisers. Those qualifications are particularly valuable when facing challenging valuation assignments.

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