
Myths and Facts about Appraisals

Consumers tend to have some misconceptions about the appraisal process.

By Marcie Geffner

If you've ever watched "Antiques Roadshow" on PBS, you're already familiar with the concept of an appraisal. The idea is similar in the realm of real estate valuations. Each property is unique, and the appraiser relies on his or her general expertise and specific research to arrive at an opinion of value. Appraisals are an infrequent experience for most consumers, who consequently tend to have some misconceptions about the process and the results.

Here are some myths and facts:

Myth: The primary purpose of an appraisal is to make sure the buyer doesn't pay too much for the house.

Fact: An appraisal provides valuable information for the buyer and the seller, but the appraiser's primary mission is to protect the lender. Lenders don't enjoy owning overpriced property any more than they relish lending money to irresponsible borrowers. That's why the appraisal takes place before the lender grants final approval of the buyer's loan.

Myth: Appraisers use a specific formula (e.g., price per square foot) to figure out exactly how much each home is worth.

Fact: Appraisers weigh the location of the home, its proximity to desirable schools and other public facilities, the size of the lot, the size and condition of the home itself and recent sales prices of comparable properties, among other factors.

Myth: Good housekeeping can improve a home's valuation.

Fact: Appraisers aren't interested in dirty dishes or dusty dressers, but they do notice such signs of neglect as cracked walls, chipped paint, broken windows, torn carpets, damaging flooring and inoperable appliances.

Myth: Anyone who has a clipboard and business cards can be an appraiser.

Fact: Federal law requires states to establish minimum standards and licensing practices for real estate appraisers. In California, for example, trainees must take several courses, pass an examination and complete 2,000 hours of supervised experience.

Myth: Appraisers have no obligation to reveal home defects to buyers.

Fact: If the buyer is applying for a mortgage that will be insured by the Federal Housing Administration (FHA), the appraiser must survey the physical condition of the home and disclose potential problems to the buyer. No such obligation exists for non-FHA mortgages.

Myth: An appraisal is identical to a home inspection.

Fact: The new FHA disclosure requirement notwithstanding, an appraisal isn't a substitute for a professional home inspection. The appraiser formulates an opinion of the property's value for the lender, while the inspector educates the buyer about the condition of the home and its major components.

Myth: If the appraiser's opinion of value is lower than the purchase price, the buyer won't be able to purchase the home.

Fact: A transaction can sometimes survive a "low" appraisal if the seller reduces the purchase price, the buyer makes a hefty downpayment or a separate escrow account is set up to fund repairs that will increase the value of the home. On rare occasions, an appraiser will reconsider his or her opinion if new evidence supports a higher valuation.

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