

# Appraisals - Frequently Asked Questions

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## **What is an appraisal?**

An appraisal is an estimate of a property's value, prepared by an independent third party. Commercial lenders generally require an appraisal as a condition of approving the loan.

## **Who pays for the appraisal?**

In most cases, the borrower will be responsible for the cost of the appraisal. If the purpose of the loan is to purchase property, the buyer may need to prepay this cost at the time of application. If you are the property owner, refinancing or taking a second-mortgage against a property that you already own, you will most likely pay the appraiser at the time of inspection.

## **How does the appraiser determine the value of property?**

There are several factors in determining the market value of property. The biggest and single most important is the use of comparable sales or "comps." These are homes that are fairly similar to your home in size, location and amenities/upgrades. The appraiser will try to locate three comps that sold within one mile and within the last six months from the time of inspection. They will use these comps as a starting point and make adjustments to each sale price for the differences between your property and each of the comps. They are trying to determine what the home would have sold for had it been exactly like this home. When this is completed, he/she will determine the final value estimate and turn the report over to the lender.

## **How much does this cost?**

The cost of an appraisal for a single-family home ranges between \$350 and \$5000. This fee may vary, depending upon the price of home, if it is waterfront or an irregular shape, or if it is an income-producing property. If this is or will be a rental property, the lender will most likely require two additional forms that address rent information. These forms generally cost an extra \$150 to \$250, depending on the location of the property and whether or not there is an abundance of rental data available to the appraiser. Some unique properties (i.e. waterfront or acreage) may also carry an extra premium.

## **If I pay the appraiser, why does the report go to the lender?**

The appraiser works for whoever orders the report, not whoever pays for the report. Appraisers are independent third parties and usually not affiliated with a lender in any way. Even though the buyer or property owner may pay for the appraisal, the report will go to the lender, if the lender places the order for it.

## **Why can't I see the report?**

Actually, you can see it, if you paid for the appraisal, and you can actually receive a copy of it if you follow a few simple procedures. If you have paid for the report and there is no balance

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due, most mortgage companies will gladly provide you a copy of the report shortly after closing. Most companies order three original copies of the report. Two of these are needed for the financing transaction; however, the third copy is often given to the borrower. If your loan does not close for some reason, you may ask for it in writing. If you do this, under Federal Lending Laws, your lender has thirty days to provide a copy of this report to you. Failure to do so allows you to seek relief from the Federal government. Some lenders automatically give you a copy of your appraisal at closing. You do not have to ask for it.

## **What if I decide to use another mortgage company after the appraisal is completed?**

This does not necessarily mean that you would have to pay for another appraisal. You first lender could assign all rights to the appraisal over to your new lender. Some appraisal firms may charge a small fee for this because there usually is a need for reprinting and packaging the report in the new lender's name. However, the fee will be nowhere near the cost of a new appraisal.

If the lender orders the appraisal, then the appraiser is looking out for the lender's best interests. Frankly, this is also to *the borrower's* advantage. No one wants to pay \$100,000 for a home that really is only worth \$90,000. The appraiser is a disinterested third party to the transaction, yet provides benefits to all involved parties. This is one cost of the transaction that is well spent.

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