

TIPS

The Appraisal

The appraisal is one of the four main parts of a loan application. Because the property to be financed will be the security for the loan, the lender must be certain that it has sufficient value. The loan amount is based on the lesser of the sales price or appraised value.

Guidelines

The art of appraising residential property has evolved over time into a very sophisticated yet subjective science. The secondary market has developed guidelines with which it expects the appraiser to comply in order to come up with a fair and reasonably certain value. They also want assurance that it is a marketable property.

What Is The Risk?

Lenders want to know whether the property is in an area that is growing, stable, or declining. Is it in a predominantly residential area or are there commercial elements as well? Is the house in good repair?

*A Good
Appraiser Will
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Does it have the minimum number of bedrooms and bathrooms to give it marketability in the area? In short, what is the lender's risk in making this loan?

Responsibility

The appraiser's responsibility is to provide the lender with the necessary information to make a good decision. A good appraiser will make an independent judgment, uninfluenced by any parties to the transaction. Although the borrower usually pays for the appraisal, it is done for the lender.

Maximum Value

Most important of all, the appraiser must establish the value of the property. In the *Market Value* method of establishing value, the appraiser compares the property in question with three recent comparable sales. The comparables must be within a reasonable distance of the subject property, be similar in size and features, and have sold within the last six months, twelve months at the very latest.

The amount of the appraisal is the maximum value on which the loan will be based. For example, if the appraisal is \$100,000 and the lender will loan 80 percent of the value, the maximum mortgage you would receive would be \$80,000.

Cost

An appraisal is a necessary part of the mortgage lending process and it is customary for the borrower to pay for it. The cost of an appraisal can vary enormously ranging anywhere from \$175 to \$350 or more depending on the value and size of the property.