

The Business Booster Collection



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The Truth About Appraisals

Knowing the Guidelines Solves the Mystery

The appraisal process often baffles consumers. They may feel that their home is worth a higher dollar amount, and so the appraised value doesn't always make sense to them. It is important to know that the appraiser is completely independent from lenders, buyers, sellers, and real estate agents, and that the guidelines to which they adhere are dictated by the Uniform Standards of Professional Appraisal Practice (USPAP) and Fannie Mae. In most states, the mortgage lenders must also disclose the purpose of the appraisal, as each transaction carries its own set of rules.

In essence, these important guidelines help appraisers put a fair market value on homes based on comparable sales in the same area, and the home must be bracketed in size and value.

For example, there is no set dollar figure associated with a great view, pool, spa, bathroom upgrades, etc. If a homeowner installs a custom pool that cost them \$30,000, but the local marketplace supports the value of a pool at \$15,000, then that item will be bracketed as [\$15,000] on the appraisal.

Upgrades can usually be expressed at a higher percentage of their value in newer homes because the only way to obtain those upgrades was to put more money into the cost of building the home. On the other hand, the upgrading or remodeling of an older home is rarely reflected in full in the final appraisal. This is because typically 25-40% of the project involves demolition and the fixing of issues that aren't uncovered until the project has already begun, such as plumbing or wiring that may need updating.

Ultimately, the value of the upgrades must be supported by comparable examples within the same marketplace. These comparisons must be drawn from current market activity within the last six months. This is a safeguard to prevent appraisers from attaching too high a value to the home in question, and opening up the appraisal for review. This guideline further states that appraisers can only base their opinion on the value of home sales that have actually closed.

As a loan professional, I make a point to follow the appropriate guidelines at all times. This promotes a good relationship with the lender, and helps to create easier and much smoother closings for my borrowers.

Call me if you or your clients would like more information on this subject.

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