What You Must Know About Home Appraisals

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Understanding how appraisals work will help you achieve a quick and profitable refinance or sale.

When you refinance or sell your home, the lender will insist that you get an appraisal—an opinion of the value of your home based on what similar homes in your area have sold for in recent months.

Here are five tips about the appraised value of your home.

1. An appraisal isn't an exact science
When appraisers evaluate a home's value, they're giving their best opinion based on how the home's features stack up against those of similar homes recently sold nearby. One appraiser may factor in a recent sale, but another may consider that sale too long ago, or the home too different, or too far away to be a fair comparison. The result can be differences in the values two separate appraisers set for your home.

2. Appraisals have different purposes
If the appraisal is being used by a lender giving a loan on the home, the appraised value will be the lower of market value (what it would sell for on the open market today) and the price you paid for the house if you recently bought it.

An appraisal being used to figure out how much to insure your home for or to determine your property taxes may rely on other factors and arrive at different values. For example, though an appraisal for a home loan evaluates today's market value, an appraisal for insurance purposes calculates what it would cost to rebuild your home at today's building material and labor rates, which can result in two different numbers.

Appraisals are also different from CMAs, or competitive market analyses. In a CMA, a real estate agent relies on market expertise to estimate how much your home will sell for in a specific time period. The price your home will sell for in 30 days may be different than the price your home will sell for in 120 days. Because real estate agents don't follow the rules appraisers do, there can be variations between CMAs and appraisals on the same home.

3. An appraisal is a snapshot
Home prices shift, and appraised values will shift with those market changes. Your home may be appraised at $150,000 today, but in two months when you refinance or list it for sale, the appraised value could be lower or higher depending on how your market has performed.

4. Appraisals don't factor in your personal issues
You may have a reason you must sell immediately, such as a job loss or transfer, which can affect the amount of money you'll accept to complete the transaction in your time frame. An appraisal doesn't consider those personal factors.

5. You can ask for a second opinion
If your home appraisal comes back at a value you believe is too low, you can request that a second appraisal be performed by a different appraiser. You, or potential buyers, if they've requested the appraisal, will have to pay for the second appraisal. But it may be worth it to keep the sale from collapsing from a faulty appraisal. On the other hand, the appraisal may be accurate, and it may be a sign that you need to adjust your pricing or the size of the loan you're refinancing.

G.M. Filisko is an attorney and award-winning writer who has endured several property closings, but the easiest was done through the mail. A frequent contributor to many national publications including Bankrate.com, REALTOR® Magazine, and the American Bar Association Journal, she specializes in real estate, business, personal finance, and legal topics.

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