

An Article of Interest

Real estate appraiser 'central' to mortgage process (Part 1)

New-home buyers know that an appraiser stands between them and a mortgage, but few appreciate the appraiser's central role in the mortgage underwriting process or what, exactly, the appraiser does.

He or she assigns a value to your proposed new house, based on what buyers have paid for properties that are similar in age, size and location. This information is critical to the lender because he needs corroboration that the house is worth at least what he is lending to you. In the worst-case scenario, you default and he has to unload your house in a foreclosure sale; the lender wants assurance that he can get his money out.

The lender turns to the appraiser for this information because he is an objective third party who has no vested interest in the sales transaction itself. The appraiser is paid a flat fee for his services, and, unlike the broker, the seller and the buyer, he has nothing to gain or lose in determining a dollar value for the property.

When the transaction is a production house in a subdivision where the builder has four models, the appraiser's job is easy because the builder is selling the same houses over and over, and there is a ready measure of how other buyers value the house that you want.

If you are building a custom house and need a construction loan, the appraiser's job is much harder because there is no existing house to examine. He has to pour over your drawings and specs and compare them to other, similar custom houses. If the documentation is not a complete bid set, which is often the case, he will have to make specific

assumptions about roofing materials, siding, kitchen cabinets and other missing pieces of information, said Great Falls, Va., residential appraiser William Harvey, who added that it is in the owner's best interest to ensure that an appraiser has as complete a bid set as possible.

After your house is finished, the appraiser has to inspect it to ensure that it merits his earlier evaluation. This can sometimes bring unwelcome surprises. Karen Mann, a residential appraiser in Fremont, Calif., recalled measuring a finished house that turned out to be 345 square feet short. After determining that the final cost of the house was \$162 a square foot, the builder had to refund \$54,200 to the owners.

If you want to build a custom house that is unusual for your market, the appraiser may have a hard time comparing it to other houses and arriving at a valuation. He may have to use older properties or compare it to houses that are not that similar. And, he may decide that the value of the house is less than the builder is charging you, based on the sales data available in your market area.

To get your construction loan you may have to put up a bigger down payment than you expected. This is unusual, but it is a risk that owners run when they decide to build something that is out of the mainstream, said Mark Simpson, director of property and valuation standards and practices at Fannie Mae, a federally chartered corporation that buys home mortgages on the secondary mortgage market.

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