

## >> Introduction

The appraisal is a critical step in the homebuying process that can ultimately make or break a sale. That's why it's so important for buyers and sellers to thoroughly understand the process — and we're here to help!

In this ebook, we'll walk you through the basics of home appraisals, from why they're important to how a professional appraiser determines a home's value.

Let's get started!





## What Is a **Home Appraisal?**

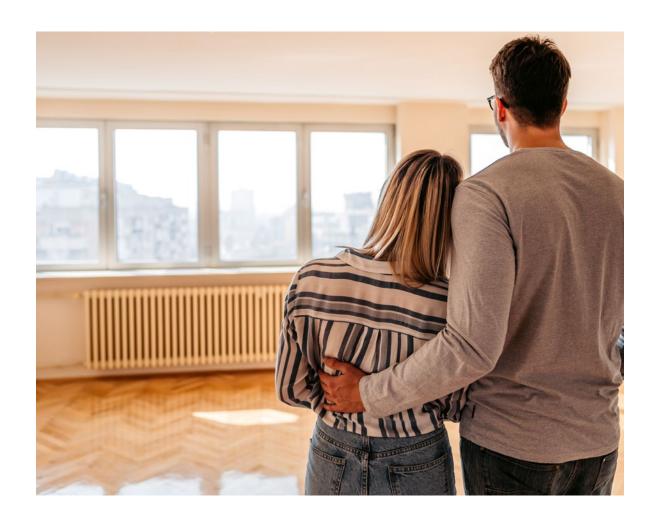
A home appraisal is intended to determine the fair market value of a home. A professional appraiser will take into account the general condition of the home, any upgrades made to the home, and comparable properties in the area to determine if the price the buyer has agreed to pay for the home is fair.



# **How an Appraisal Protects**Both the Buyer and Their Lender

If the buyer is taking out a loan to pay for their home, an appraisal will usually be required by their lender. That's because an appraisal protects the lender by keeping them from approving a loan for more than the home is worth.

Getting an appraisal is also in the buyer's best interest because it provides them with an unbiased assessment of how much a home is worth, preventing them from paying too much.





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Lenders want to make sure that homeowners are not overborrowing for a property because the home serves as collateral for the mortgage," Investopedia explains.

"If the borrower should default on the mortgage and go into foreclosure, the lender will sell the home to recoup the money it lent. The appraisal helps the bank protect itself against lending more than it might be able to recover in this worst-case scenario."







A home appraisal is one of several common contingencies in a real estate contract. Put simply, a contingency allows a buyer to back out of the deal under certain conditions.

A buyer's offer will often be contingent on the results of the **inspection** and **appraisal**. It also could be contingent on the buyer **obtaining financing** or **selling their current home**.

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# **How Is a Home Appraisal Different** From a Home Inspection?

The appraisal and inspection are both key parts of the homebuying process that involve a professional evaluating the home, but they serve very different purposes. An appraiser makes a general assessment of the home and determines how much it's worth by considering external factors, such as comparable properties. An inspector, on the other hand, takes a more in-depth look at the condition of the home.

### What Is a **Home Inspection?**

An inspection is intended to assess the condition of the home and uncover potential damage or safety issues. A qualified home inspector will examine the property top to bottom, from its plumbing and electrical to its roof and foundation. They might recommend repairs or notify the buyer if something isn't up to current code.





## What Does a Home Appraiser Do?

A home appraiser will typically walk through the home, looking for certain features. They will also do market research on the home.

Here are some of the things an appraiser might take into account when determining the value of a home, according to NerdWallet:

- Neighborhood characteristics
- Local housing market trends
- Sale prices of comparable homes recently sold in the area
- Lot and home size
- Age and design of the home

- Types of interior and exterior materials
- Condition of the home
- Appliances
- Home improvements and renovations

Once the appraisal is done, the lender and the buyer will receive a copy of the appraisal report. The whole process takes an average of 7-10 days, *Investopedia says*.





## What Happens If the **Appraisal Is Lower Than Expected?**

A lender isn't going to allow a buyer to borrow more than what a home is worth, so if the appraised value of the home comes back lower than the buyer's offer, it can complicate the deal. In some cases, it can even cause the deal to fall through.

If that happens though, don't panic! There are options that allow the buyer and seller to salvage the deal. Typically, what happens is that the seller either lowers the price of the home or the buyer pays the difference. However, if you have reason to believe that the appraisal report is incorrect, you can seek a second opinion or contest the original appraisal.



A Zillow research report found that among sellers who had experienced an offer falling through, 10% attributed it to the appraisal being lower than the purchase price.

# We Hope Your Home Appraisal Goes Smoothly!

The appraisal process can be an intimidating step on your journey to buying or selling a home, but we hope that you feel more prepared for it, regardless of the outcome.

Most importantly, remember that your real estate agent will be an incredibly valuable resource during this time, so don't be afraid to go to them with questions.

#### Good luck!





# **More Resources** for Homebuyers and Sellers

Want to learn more about buying, selling, or owning a home? This ebook is part of a series that we created specifically to help educate first-time buyers and sellers.

#### **Check these out:**



#### <u>Five Concepts First-Time</u> Homebuyers Should Understand

If you're a first-time homebuyer who's just beginning the process of purchasing a home, you probably have questions. In this ebook, we outlined five concepts that buyers should understand, from private mortgage insurance to down payments.



#### <u>5 Things First-Time Buyers Should</u> Know About Homeownership

Homeownership is incredibly exciting, but it also comes with a lot of responsibility. In this ebook, we offer tips to help prepare first-time buyers for homeownership.



#### What Buyers and Sellers Should Know About Home Inspections

Inspections can be nerve-wracking, especially if you're a first-time buyer or seller, but we're here to help you approach the inspection stage with confidence.





## **About Us**

Founded in 2005, The CE Shop has become the leading provider of online real estate education. With industry-leading pass rates and support from Pre-Licensing through CE, our students are better prepared to set themselves up for success.

Our ever-expanding course catalog of Pre-Licensing, Exam Prep, Post-Licensing, and Continuing Education products are trusted throughout the industry and offer agents across the country the education they rely on.

With products available in all 50 states and D.C., we're driven by a desire to constantly improve, both for ourselves and our students.



