Navigating the Appraisal Process (NAP) Guide

Your Guide for Understanding Appraisals and How to Take Action against Low Valuations
About NHS - What We Do

Education & Counseling

Affordable Lending

NHS

Neighborhood Revitalization

Housing Development
Workshop Opportunities

We partner with realtors and appraisers to deliver this presentation virtually and in person to a variety of groups from consumers to housing counselors.

If you would like to partner with us to deliver this presentation to your clients, please contact NHS housing policy director Sarah Brune, sbrune@nhschicago.org
Overview

• What is an appraisal?
• The appraisal process
• Recognizing appraisal bias
• How to prepare for an appraisal
• How to take action against a low valuation
Definitions

Appraiser: An appraiser is a person licensed by the state after completing licensing coursework and internship hours.

AMC: Appraisal Management Company is an entity through which mortgage lenders order residential real estate valuation services.

Comparables: Also known as “comps”, is a real estate appraisal term referring to properties with characteristics that are similar to a subject property whose value is being sought.

Multiple listing services: database that can only be accessed by real estate professionals to find comparable properties.

Reconsideration of value: also known as a ROV, is the process in which you file an appraisal value dispute which can lead to getting a 2nd opinion on your home. The Reconsideration of Value comes into play when an appraiser’s opinion of value is not agreed upon by the parties involved in the transaction.

Comparative market analysis: a tool that real estate agents use to estimate the value of a specific property by evaluating similar ones that have recently sold in the area. This is different from an appraisal that can only be completed by an appraiser.
What is an Appraisal?

An appraisal determines the value of your home when you are trying to buy a home, refinance, or sell.

A licensed appraiser completes this estimation.

How much money you can borrow is in part determined by the value of the collateral provided, which is your home.

An appraisal is needed to determine the value of your home.
Next, we will walk through each step of an appraisal. The following slides explain the appraisal process if you are buying, selling, or refinancing your home.
1. Complete financing paperwork
2. Lender orders appraisal
3. Appraisal is conducted
4. Appraisal report is created
5. Appraisal is submitted for review
1. Loan Application

The first step is completing a loan application. Homebuyers, homeowners, or those seeking to build a home typically need financing and will apply for a mortgage loan (i.e., purchase, refinance, construction, home equity) with a lending institution.

The purpose of the appraisal is to ensure homebuyers

- Pay a fair, reasonable price for their home
- Receive the full value their home is worth
- Can access all the equity in their home
2. Lender Orders Appraisal

Your lender orders your appraisal after you put in an offer on your home, have it accepted, and sign the purchase agreement.

As a seller, the appraisal happens after you list your home and you and the buyer have signed the purchase agreement.

The appraisal request is then submitted to an appraiser or appraisal management company (AMC) who will conduct the appraisal. You will be notified when the appraisal is scheduled.
Cost of an Appraisal

If you are buying or refinancing a home, you pay for your appraisal. Most single family conventional home appraisals cost $200-600 while multi family homes can cost up to $600. Appraisals for an FHA loans are more expensive than appraisals for conventional loans due in part to additional requirements and guidelines.

Tip: The best time to bring up the cost of an appraiser is when you are ready to choose a mortgage broker.
Next, the appraiser comes to the home. The on-site appointment can last anywhere from 15 minutes to several hours.

During the inspection, the appraiser will do a thorough evaluation of the home taking photos of the inside and outside of the home and make observations.
Different Types of Appraisals

Drive-by Appraisal
An appraisal that is conducted without an appraiser entering your home. Rather, a licensed appraiser will examine the home from the outside and make their valuation based on the exterior. This costs less than a full appraisal. This happens more often with home refinances but occurs frequently due to COVID-19.

Desktop Appraisal
An appraisal that is performed without an appraiser conducting an on-site inspection. All research is done, as the name suggests, at the appraiser’s desk. This costs less than full appraisal. Appraisers will use tax records and multiple listing services to find comparables to make a valuation on your home.

There are different ways an appraisal can be conducted. Your lender will inform you what type of appraisal will be performed prior to your appointment.

Both types of appraisals could be less accurate than a full appraisal which could cost you thousands. If your property needs an on-site full appraisal, please request one from your lender.
Different Types of Appraisals Cont.

During the COVID-19 pandemic, an appraisal also involved the appraiser relying solely on exterior inspection and interior photos/videos of your home that YOU provide.

Your appraiser will reach out to you with instructions on pictures to take.

We recommend taking down any items indicating your race such as family photos, paintings, etc to mitigate appraisal bias which will be discussed shortly.
4. The Appraiser Creates the Report

The appraiser puts together a report on your home with everything they used to determine the value of your home.

Appraisers can use 3 approaches to get the value of your home:

1. **The sales comparison approach**: Selecting comparable homes to yours and making adjustments to the value of your home. **Note**: This is typically the most common approach
2. **Cost approach**: How much it would cost to build or replace your home depending on the size and local construction costs
3. **Income approach**: Used for income-generating property, in which the appraiser estimates how much the property is expected to make
How are Comparables Chosen?

In the sales comparison approach, the appraiser will review comparable homes to come up with a value for your home. The report will contain these comparables (usually 3).

Comparables are chosen using the following criteria:

- Have sold recently in your neighborhood (sold in the last 3 months)
- Have the same characteristics of your homes
- In the same neighborhood as your home or one nearby

**Note:** The appraiser will make adjustments, additions or subtractions to the value of your home based on these comps. **This is in your report.**

Example: If one comp has an extra bedroom and bathroom but is priced the same as your home, the estimated value will decrease by an appropriate amount.
5. Your Appraisal is Submitted for Review

Finally, the appraisal report is submitted to the lender for review. You will also receive a copy of your appraisal.

The Equal Credit Opportunity Act requires that lenders send a copy of the report to the homebuyer or homeowner regardless of the loan decision. The seller does not receive a copy of the report but can request one.

The report will contain everything used to come up with a valuation such as:

- Specific properties used as comparables
- Location of the home
- General market data
Example Appraisal Report

Key Realty & Appraisal (410) 383-1247

Uniform Residential Appraisal Report

Property Address: 112 Courtyard Drive
City: ELKTON
State: MD
Zip Code: 21921-6202

Borrower: JOHN E HOMOWNER
Owner of Public Record: JOHN E HOMOWNER
County: CECIL

Legal Description: LOT 18 - 346 ACRE 112 COURTYARD DRIVE THOMSON ESTATES
Assessor's Parcel #: 08930307570
Tax Year 2008
R.E. Taxes $ 1,812

Neighborhood Name: THOMSON ESTATES
Map Reference: 312
Census Tract 0055.04

Occupant: Owner
Habitation: Vacant
Special Assessments: $ 0
PLD HSA $ -
per year
per month

Property Rights Appraised: Fee Simple
Leasehold: No
Other: (describe)

Assignment Type: Purchase Transaction
Reference Transaction: Other
Other (describe)

Lender/Credit: MORTGAGE LENDER ABC123
Address: 12345 HOME LOAN ROAD, HAPPINESS, MD 21921

Is the subject property currently owned for sale or has it been offered for sale in the twelve months prior to the effective date of this appraisal? Yes No

Report data sources used, offering prices, and date(s). MLS and Public Records do not report the Subject Property Being Offered During the Twelve Months Prior to the Effective Date of this Appraisal.

I did not analyze the contract for sale for the subject purchase transaction. Explain the results of the analysis of the contract for sale or why the analysis was not performed.
N/A, the Subject Property is NOT CURRENTLY UNDER CONTRACT.

Contract Price $ 0
Date of Contract N/A
Is the property seller the owner of public record? Yes No
Data Source(s) PUBLIC RECORD
Is there any financial assistance (loan charges, sales concessions, gift or downpayment assistance, etc.) to be paid by any party on behalf of the borrower? Yes No If Yes, report the total dollar amount and describe the items to be paid.
N/A
N/A

Note: Race and the racial composition of the neighborhood are not appraisal factors.

Neighborhood Characteristics

One-Unit-Housing Trends

Location: Urban
Suburban
Rural
Property Values: Increasing
Stable
Declining
Price AGE
One-Unit
65%

Built-Up: Over 75%
76-75%
Under 25%
Demand/Supply: Shortage
In Balance
Over Supply
$ 000
$ 000
2-4 Unit

Growth: Rapid
Stable
Slow
Marketing Time: Under 3 mos
3-6 mos
Over 6 mos
80 Low
New
Math-Family

Major Employment Centers: The Neighborhood Borderline is BORDONED BY RED HILL ROAD TO THE NORTH, THE DEMPSTEY STREET THE SOUTH, 850 HIGH 200 Commercial 5%

Neighborhood Description: LOCATED WITHIN THE TOWN LIMITS OF ELKTON AND IS CLOSED TO ALL MAIN SERVICES, SCHOOLS, SHOPPING AND MAJOR EMPLOYMENT CENTERS. THE NEIGHBORHOOD IS A MIXTURE OF SINGLE FAMILY DWELLINGS. THERE APPEARS TO BE ADEQUATE ROAD MAINTENANCE, POLICE, AND FIRE PROTECTION IN THE AREA.

Market Conditions: MARKETING TIME GIVES SUPPORT TO THE BALANCE OF SUPPLY AND DEMAND. CLOSED SALES INDICATE A MARKETING OF 12 MONTHS. THE CURRENT NUMBER OF LISTING SUPPORTS THAT SUPPLY AND DEMAND IS IN BALANCE. FINANCING IS READILY AVAILABLE. TYPICAL POINT PAID BY THE SELLER ARE 1-3.

Dimensions: 10,071 SF ACRE (S)
Area: 0.35 ACRE(S)
Shape: IRREGULAR
View: RESIDENTIAL

Specific Zoning Classification: DEVELOPMENT RESIDENTIAL

Zoning Compliance: Legal
Legal: Nonconforming (Grandfathered Use)
No Zoning: Illegal (described)

Is the highest and best use of subject property as improved or (as proposed per plans and specifications) the present use? Yes No If No, describe

There are 57 comparable properties currently offered for sale in the subject neighborhood ranging in price from $ 175,000 to $ 250,000.

There are 105 comparable sales in the subject neighborhood within the past twelve months ranging in price from $ 175,000 to $ 250,000.

FEATURE SUBJECT COMPARE SALE #1 COMPARE SALE #2 COMPARE SALE #3
Address: 112 Courtyard Drive
105 TARTAN DRIVE
216 WHITEHALL ROAD
ELKTON, MD 21921
ELKTON, MD 21921
ELKTON, MD 21921

Preceding to Subject
0.30 miles NE
1.9 miles SW

Sale Price
$ N/A
$ 171,000
$ 194,500

Sale Price/Gross Liv. Area
$ 171.00/sq ft
$ 172.43/sq ft
$ 164.07/sq ft

Date Listed: 09/06/2009
02/06/2009
01/29/2009

Location: AVERAGE
AVERAGE
AVERAGE

Lease/Fin Simple Fee Simple
SJim

Sale of Financing: CONVENTIONAL
CONVENTIONAL
CONVENTIONAL

Concessions: SUBSIDY $ 13,000
CONVENTIONAL
NO CONCESSION

Date of Sale Time
09/06/2009
02/06/2009
01/29/2009

Situation
0.34 ACRE(S)
0.34 ACRE(S)
0.25 ACRE(S)

Sale Price: PUBLIC RECORD
PUBLIC RECORD
PUBLIC RECORD

Residential: RESIDENTIAL
RESIDENTIAL
RESIDENTIAL

Design (Ranch) RANCH
RANCH
RANCH

Quality of Construction: BRICK/VELVING VINYL SIDING
VINYL SIDING
VINYL SIDING

Actual Age: 41 +/- YEARS
29 +/- YEARS
20 +/- YEARS

Condition: AVERAGE
AVERAGE
AVERAGE

Above Grade

Basement
8.3 1.0 8.3 1.0 8.3 1.0

Gross Living Area: 1,052 sq ft
1,000 sq ft

Basement Finished FULL, PL
SPL

Remodel Grade: BLD, FAMILY
N/A

Overall: 7,100 sq ft

Replaced/Insulation: N/A
N/A

Efficiency: AVERAGE
AVERAGE
AVERAGE

Electrical System
AVERAGE
AVERAGE
AVERAGE

Sanitary System
AVERAGE
AVERAGE
AVERAGE

Garage Count: 1 CAR ATT
1 CAR ATT
1 CAR ATT

Attic: NONE
NONE
NONE

Furnace/Chimney: NONE
NONE
NONE

Porch/Deck: 3,000 PORCH, DECK
3,000 DECK
3,000 DECK

Boiler: NONE
NONE
NONE

Porch/Pool/Other: 2,500 POOL, DECK
2,500 POOL, DECK
2,500 POOL, DECK

Other: NONE
NONE
NONE

Mt Adjustment
6 $ 10,000
4 $ 5,000

Adjusted Sale Price
Net Aq. 6.3%
Net Aq. 6.3%
Net Aq. 6.3%

Comparables: Gross Aq. 12.7%
181,800 Gross Aq. 14.3%
196,900 Gross Aq. 6.9%

Utilized to Research the Transfer History for the Subject Property and Comparables.

1) I did not research the sale or transfer history of the subject property and comparable sales. If not, explain
MLS and PUBLIC RECORD WERE

2) Used to Research the Transfer History for the Subject Property and Comparables.
Recognizing Appraisal Bias

Many Black and Brown families across the South and West side of Chicago have experienced appraisal bias and discrimination resulting in significant devaluation of homes and neighborhoods.

When a home is improperly undervalued, that hurts you, the homeowner, and the surrounding neighborhood.

If you have suffered discrimination, please fill out this survey so we can better understand your situation and help you seek relief:

[Appraisal Incident Survey]
Preparing for your Appraisal

Next, we will review how to best prepare for your appraisal whether you are buying, selling, or refinancing. This is important in order to get an accurate valuation on your home.
Steps to Prepare

1. Research Appraiser
2. Contact Realtor
3. Find Comparables
4. Submit Appraisal Package
5. Evidence of Home Improvements
6. Make Renovations and Tidy Up
7. Be Present
Research your Appraiser

Ask your lender for qualifications and professional designations of the appraisers it works with. If an appraiser’s office isn’t local, that can be an indicator that they will not know how to assess your property accurately.

Questions for Lender

“What is the name of my appraiser”

“How much field experience does this appraiser have in my neighborhood?”

“What is the physical address of this appraiser's office?”

“What AMC does this appraiser work for?”

Questions for Appraiser

“How much experience do you have working in this area/neighborhood?”

“Have you visited this neighborhood before?”
Research Your Appraiser

You can ask your lender for the name of your appraiser, so you can do your own research. If you are unsatisfied, you can request that your lender send a new appraiser.

**Tools for Research:**

- **Department of Housing and Urban Development:** search for an active appraiser by name, location, or license
- **Appraisal Institute:** online directory to find all real estate appraisers
Contact your Realtor

If you are buying, selling, or refinancing, your realtor will be able to provide guidance specific to your home and your area. Your realtor can help you put together an “Appraisal Package” which is information on your home that can be shared with an appraiser prior to the appraisal to help them with their valuation.

This package contains the following for your appraiser to consider:

- Property info
- Listing info
- An offer list if you have received multiple offers on your property
- Condition and room count
- Comparable properties list or comparative market analysis
- Neighborhood market report.
- Property upgrades and recent receipts of improvements
Share Evidence of Your Home Improvements

If you are refinancing or selling, create an informational packet to give to your appraiser that provides additional information about your home that can impact its value

- Improvements over the last 15 years
- Upgrades
- Renovations
- Designations of historical value of your home in writing

Remember to include receipts of all improvements and proof of permits
Find Your Own Comparables

You can estimate how much your home is worth by compiling your own comparables. Remember to find homes sold within the last 3 months.

Online Home Listing sites to help you find your own comparables:

- Redfin.com
- Coldwellbanker.com
- Zillow

* In the case of refinancing, you can compare the comparables listed on the original appraisal report that you received when you first purchased your home to the new refinancing appraisal to find errors.

Use these listing sites to search for "just sold" or "recent sales" and show your search results on a map.

Here’s how:

1. Enter your city’s name and use the map to explore sold properties by neighborhood.
2. Filter your search results by details like date sold, price and number of bedrooms.
3. If the site allows it, use other filters — such as crime statistics, school scores and neighborhood amenities — to get more details for making comparisons.
4. Narrow your collection to a manageable number; a half-dozen is a good goal.
Find Your Own Comparables

As a seller, we highly recommend that you call past sellers and see if you can obtain a copy of the Closing Disclosure (CD) so the appraiser can use that comp.
Tidy Up!

Make sure your home is show ready for your appraisal.

Here are some things to do that will raise your home’s value:

- **Declutter**
- **Remove family photos to minimize bias**
- **Maintain landscaping/curb appeal**
  - Shovel snow
  - Mow the lawn
  - Rake your leaves
- **Make minor repairs and upgrades**
  - Touch up chipped paint
  - Replace broken doorknob etc
Housing Counselors can help you Best Prepare

If you need guidance or assistance, please contact a housing counselor. We can help you best prepare for your home for your appraisal:

- Assess your home value based on features of your home
- Make renovations to your home
  - Repairs for health/safety issues
  - Accessibility needs
  - Air conditioning
  - Upgrades to add functionality and value needed
Have a Representative at the Appraisal

Ask for your realtor, broker, or another representative who is knowledgeable about your home and neighborhood to be present. These representatives can provide information on your home to support the sales price. They can also point out other important things the appraiser is not aware such as recent improvements, the quality of the neighborhood, schools, etc.
“What do I do if my appraisal value is lower than I expected?”
Appeal the Report

If you receive a low valuation, there could be inaccuracies in your report and you will want to appeal. This can lead to a Reconsideration of Value or (ROV) from your lender.

What to say to your Lender:

- Explain that you are unsatisfied with the value of your home and would like to appeal your appraisal
- Make sure to list out the specific issues or inaccuracies and provide evidence
Submitting a Reconsideration of Value

A Reconsideration of Value or (ROV) is the appraisal appeal process in which a lender files an appraisal dispute which can lead to getting a 2nd opinion on your home.

You need to provide evidence to your lender to support your case. Review your home appraisal report closely for inaccuracies:

- Room count
- Condition of your home
- Home improvements and upgrades
- Square footage
- Grade of materials
- Condition of amenities

Remember that your lender also has to go through their regulators with this information, it’s beneficial to give them a clear understanding of what is wrong with your appraisal so they can best help you.
Review Report for Inaccuracies and Bias

- Incorrect square footage
- Incorrect # of bedrooms and baths
- Omitting certain features, improvements, or renovations
- Comparables dissimilar to the subject property
- Language in the report

Using comparables that are dissimilar to the home in terms of quality, distance, etc. is an indicator of appraisal bias.
Examples of Biased Language

- “Black race population above state average
- “Storefronts supplying Jewish households
- “Predominantly Hispanic”
- “More Asian Influence of late”
- “Homogeneous neighborhoods with good schools”
Contact your Realtor

Contact your realtor to help you make the case.

Your realtor can help you review your appraisal report for inaccuracies. They can also request that the lender request a “Reconsideration of Value” from the appraiser.

In the meantime, your realtor can help you make your case by

- Finding comparable sales and listings
- Documenting home improvements and renovations
- Providing a neighborhood market analysis
Collect Evidence for your 2nd Opinion

To support your claim, you will need to suggest alternative comparables.

First, check the comparables used in the report. When you choose your comparables, make sure they can compete with those listed in the report. You will need to explain why each comparable used is better.

When choosing the best comparables:

- Similar size and style of your home
- Same age of your home
- Location; preferably within one mile
- Preferably sold within the last 3-6 months

Your realtor can help you compile alternative comparables.
Example ROV Request

[ Date ]

[ Name of Lender ]

Subject Property
[ Subject Property Address ]
Appraised Value: $[ ]

After reviewing the appraisal for [ Address ] by [ Appraiser ], we would like to request further clarification and investigation by the appraiser. We would like to ask for a reconsideration of value based on the following points:

- Comp 1: Critique if necessary and ask the appraiser to give an explanation for adjustments that were given or not given.

- Comp 2: Critique if necessary and ask the appraiser to give an explanation for adjustments that were given or not given.

- Comp 3: Critique if necessary and ask the appraiser to give an explanation for adjustments that were given or not given.

List alternative comparables: What does the appraiser think of [ address ] and [ address ] as comparable properties? Explain why these listings are better

- New Comp 1
- New Comp 2

We would like the appraiser to take a second look at the information above as it relates to data and adjustments in the appraisal report. We appreciate your time and consideration, and please let us know if you have any further questions.

Respectfully,

[ Your Name & Contact Information ]

Share any other relevant information here about the market, current listings or other information in the appraisal report that would be good to address:

- An independent Market Analysis (CMA) completed by a reputable real estate agent that is familiar with this area
- A list of upgrades completed that the appraisal did not take into consideration
Next Steps

The appraiser has 2 options:

1. Republish the report and send it back to the lender
2. Conduct a 2nd appraisal

A 2nd appraisal occurs if there is new information to be considered that was not available during the first appraisal.
The 2nd Appraisal

A 2nd appraisal will usually cost around the same as the 1st appraisal. The cost of the second appraisal will be assumed by the lender.
How Housing Counselors Can Help You Contest

If you are having issues contesting your valuation, please contact a housing counselor, we can help you:

- Evaluate comparables used in your report
- Requesting a Reconsideration of value
- Help you find alternative comps
- Identify any negative language or implications of the neighborhood in your report to bolster your case
- Direct you to the appropriate complaint portals
“I need to file a complaint. Who do I go to?”
Tell Us Your Story

Please fill out the survey below so we can better understand your situation and help you seek relief:

Appraisal Incident Survey

We can help help you:

- File an official complaint
- Speak with your lender
- Get a second opinion
HUD's Office of Fair Housing

**Who:** If you have suffered outright discrimination

**What:** The Fair Housing office will investigate your complaint at no cost

**Where:** If you have experienced discrimination, you can file a [fair housing complaint](https://nhschicago.org) directly to HUD or hire an attorney to file a complaint and represent you

If you suspect discrimination, you have 1 year from the date of the alleged discrimination to file a fair housing complaint with HUD.
**Illinois Department of Financial and Professional Regulation (IDFPR)**

**Who:** If you feel your appraiser is not performing their job correctly

**What:** IDFPR is the regulatory agency for appraisers and grants licenses, they can help look for a pattern of malpractice with a specific appraiser.

**Where:** You can submit a complaint here through IDFPR

You can use IDFPR to research appraisal disciplinary actions

**Note:** IDFPR cannot provide legal advice or act as an attorney, provide a refund, or award damages.
Who: If you have suffered outright discrimination

What: The Consumer Protection Division of the Illinois Attorney General helps people who have been victimized by fraud, deception, or suffer discrimination. They can take action against an AMC or a lender.

Where: You can file a consumer complaint through the Illinois Attorney General office online, mail, or in person.

Note: Their attorneys cannot represent you in a lawsuit but can help you resolve the dispute by sending your complaint to the appropriate party.
Illinois Department of Human Rights (IDHR)

**Who:** If you feel you have a low valuation that had to do with your race or background but you do not have evidence

**What:** The Illinois Department of Human Rights enforces the Illinois Human Rights Act, which prohibits discrimination in real estate.

**Where:** File a complaint with IDHR.

Note: If you are not sure whether your concern is covered, call their housing inquiry line: 312-814-6229 or email.
Who: If you would like to be referred to another agency.

What: The appraisal hotline created by the Appraisal Foundation is an information resource to help people determine the appropriate agency to file your complaint if your appraiser is not performing their job.

Where: Fill out a form online or call the hotline 877-739-0096.

Note: They do not initiate or handle complaints but can refer you to the appropriate authority. We encourage you to fill out the NHS appraisal incident survey to talk to someone about your situation.
Thank You!

If you found this guide useful and would like to learn more, please visit,
https://nhschicago.org/learn/workshops

To learn more about NHS, please visit our website,
nhschicago.org