

Ep #19: Everything You Need to Know About Appraisals



Full Episode Transcript

With Your Host

Harriet Libov

[Your Real Estate Connection in Westchester](#)

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Welcome to Your Real Estate Connection in Westchester. A show for people looking to buy or sell homes in the Northern Westchester County area. Join local real estate expert Harriet Libov as she shares her professional advice on the local real estate market, connects you with knowledgeable community residents, and gives you helpful insights behind the home buying and selling process. Now, let's dive into today's episode.

Today's episode is about the appraisal component in a real estate transaction. The word appraisal and inspection are sometimes used interchangeably by buyers and sellers. They are very different pieces of the puzzle. We learned that inspectors are licensed and trained to do home inspections to understand the workings of the house and provide a snapshot of the condition of the home at any point in time.

An appraisal is very different. An appraisal is an opinion of value used for real estate related financial transactions. Appraisers are also required to be state licensed or certified appraisers for most transactions above \$250,000. An appraisers report typically includes a visit to the home to inspect value and any other lender specific requirements.

An appraisal is a very important part of the homebuying process because it assures the lender that it has the adequate collateral to make the loan. Banks use independent appraisers to produce the most credible appraisal reports possible to understand the home's value.

Appraisers are most commonly used by purchase and sale transactions and in refinance transactions. In purchase and sale transaction, an appraisal is used to determine whether the home's contract price is appropriate given the home's condition, location, and features. In a refi transactions, an appraisal assures the lender that it isn't handing the buyer more money than the home is worth.

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In today's episode we will concentrate on a purchase and sale transaction. We will speak to John Copulos who is an appraiser in Westchester in the areas I cover. I meet many different appraisers in every transaction. There are many times that I have questions trying to evaluate a property value for buyers and sellers. I want it to appraise for the bank, and it's not always a straightforward scenario.

I have called on John to help me understand many unique situations regarding a home's value. Not only is he knowledgeable, but he is articulate as to the reasons why and makes himself available to do so. As you have learned throughout this podcast, real estate is a relationship business. So we all need to educate each other as best we can on our expertise.

Many appraisers will call me randomly as well when I list or sell a property to decide if they're looking at a comparable property for their analysis. I'm always happy to engage with professionals in that situation, and I learn some new every time I do. Today I will share with you what I have learned in my real estate career about appraisals. So let's settle in today and begin the conversation.

Today in the seller's market we are experiencing, I am educating buyers and sellers about the appraisal in every transaction. That is because buyer's are waiving this important valuation to get the house in a multiple offer situation, and it's very beneficial to a seller if a buyer waives the appraisal.

If a deal is a cash deal, there is no appraisal for the bank and therefore no opportunity to understand if they are paying too much and renegotiate. If a buyer is getting a mortgage but waiving an appraisal, they are losing the opportunity to negotiate if the appraisal comes in lower than the contract price. That is also extremely valuable to a seller, but has risks for the buyer.

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In a balanced market, buyers have more opportunity to include appraisal contingency in their offer to ensure they are paying the correct price. So to say that the appraisal is an important piece of the puzzle right now is an understatement.

An appraisal is an unbiased opinion of value. It is created with visual inspection of a property using recent sales of similar properties, current market trends, and other aspects of the home. For example, amenities, floor plan, square footage, and function to determine the properties appraisal value. The appraisal helps a bank protect itself against lending more money than it might be able to recover in a worst case scenario of a buyer defaulting on a mortgage or the home going into foreclosure.

An appraisal costs several hundred dollars, and the borrower generally pays the fee. An appraisal report must include a street map showing the property, comparable sales used, an exterior building sketch, and an explanation of how the square footage was calculated and photographs of the home's front, back, and street scene. Also front photographs of each comparable property used.

Other data, such as market sales data, public land records, and public tax records are included to determine a property's fair market value. The report takes between three and 10 business days, and is sent to the lender directly.

Today we will speak to John Copulos and learn more about the appraisal. John has been appraising for over 35 years and living in Westchester for over 30. His first 10 years in the business were with a bank. So he understands how underwriters view appraisals. The last 25 years, he has had his own appraisal company, Copulos and Associates, with his firm covering the boroughs of New York City, Rockland, and Westchester county.

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Over that time period, he has performed in excess of 10,000 appraisals. John has always enjoyed working with agents, and has been sharing his knowledge with real estate agents speaking with offices throughout the county. Recently he has begun reaching out with social media and has a Facebook group with almost 3500 members answering any and all questions that agents may have about the appraisal process.

John helps agents with prelisting, appraisal value reconsiderations, and is always there to work with an agent in need. Just within the past month, John has started a YouTube channel and expects that to start to grow as he continues to simply explain the process to agents and anyone who wants to learn about the appraisal process.

Harriet: Hi John.

John: Harriet, how are you? Great to see you.

Harriet: Yeah. Or hear you.

John: Exactly right.

Harriet: Thanks so much for joining me today. Today's podcast is about educating listeners about what an appraisal is and how it effects a real estate transaction. I really appreciate your input here. It's always so helpful to be able to call you when I have questions.

I think the appraisal is such an important piece of a real estate purchase or sale that buyers and sellers fully need to understand. We always want the appraisal to come in at the contract price or above for a smooth transaction. Most of the time it does. I have rarely seen a low appraisal that gets disputed and adjusted by the bank, if it comes in low. What do buyers need to know about appraisals and what happens if an appraisal comes in low?

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John: Harriet, that's a great question. I've got a pretty good answer for you. The buyers do have the ability to challenge and appraisal. In actuality, this is something that I do quite often. I have relationships with agents across the Westchester county area that lean on me and call me many times to help me with a low appraisal, especially on a purchase.

So what will happen is a borrower will get a low appraisal. Their agent will take a look at the report and see if it looks legit or not. Then they'll reach out to an appraiser or in my case they reach out to me, and together we put together a letter challenging that appraisal. We support it with sales data. We support it with some mistakes that may have been on the report. It happens quite often.

I'm often asked does it work? Do these challenges work John? If the agent has a good relationship with an appraiser, I would imagine many times it does because I get quite a few calls and I help out agents all the time with this type of a situation.

Harriet: Okay so I personally have disputed a few appraisals. Luckily I haven't had many that have come in too low, but I have never seen the bank change it. I think one of the times you did help me, but they still refused to change it. What the buyer did was they changed lenders so they could get a fresh start and get a new appraisal. So you do think the bank's listen, or does it really depend on the bank?

John: In my experience, they certainly listen. Because I've had good success with agents that I've helped. So it all has to do with does it make sense. Does the response to challenge make sense? Should they review the report? Should they review the appraisal? Is the appraiser missing data that is important to value? Did he miss a bathroom? Did they make an adjustment the wrong way for condition? Did they miss some sales data that they should have?

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I've saved appraisals that have been off by \$300,000 in the past simply by reviewing the appraisal and finding other comparable that would help support the sales price. So the answer to your question is yes. They will look at it, and they will review it. I think it's very important for the agent or the borrower to have an appraisers non-biased review of the situation.

Harriet: Right. So what happens, other than the dispute. Let's say an appraisal comes in low, lower than contract price. The dispute does not work, and that means that the buyer has to come up with more money. Can you explain a little bit how that works?

John: Well, I'll be honest with you. In my opinion, that's more of a mortgage representatives answer to make. So I don't feel that comfortable answering that kind of response.

Harriet: Okay. So essentially they have to put down a bigger down payment. Right. Okay.

John: Right exactly.

Harriet: Okay. Now that we're in a seller's market and prices have been rising the way they have, have you seen more appraisals come in low because the banks aren't getting with the program of what buyers are willing to pay?

John: So I'm involved in social media, and I do see it on a national level. I do see a lot of agents and buyers and sellers complaining about low appraisals. In my case, I've got over 35 years of experience. I feel as if I've got a really good handle on the situation. So there are different avenues than an appraiser can take and should consider taking when doing an appraisal in a hot market like today.

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So one thing, and I don't want to speak over the heads of buyers or sellers here. One thing that's very important in the appraisal process is pending sales right now. What's going on in the market right this second? I'm not so much going to rely on a sale that took place eight months ago, but I want to see what's happening right now. What's pending in the neighborhood? So something went into contract a week ago or a month ago, that will be give me a great snapshot as to what's going on in a market right now.

Harriet: Will the banks accept that?

John: So the banks, again, appraising is an art. It's not an exact science. Banks do want closed sales, for the most part, for the majority. They want at least three or four closed sale. When we're in a market like this, they understand that sale that's three or four month old might be a little stale. They will pay attention to a pending sale if an appraiser frames it appropriately.

Harriet: Okay. So interesting. One of the owners of Houlihan Lawrence quite a few years ago had framed it as, which I always explain this to my buyers. If you're driving a car looking at a sale is you're looking in the rearview mirror. If you're looking at a pending sale, you're looking out the windshield. That is the difference.

John: That's a great analogy. That's a great analogy.

Harriet: I agree. I agree. It helps people understand.

John: It really does. It really does. From what I see, a lot of appraisers are a little hesitant to use the pending sale, but I think it's so important in today's market to. So another thing we're able to use is time adjustments, right. So when we do use that old sale, that six month old sale, we'll be able to make percentage adjustments for a month to month increase in value that has occurred. So with the time adjustments on an older sale and then with the

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pending information that you have, you can pretty much put together a fairly logical appraisal.

So my long answer to your question was that I am not having the most difficult time supporting values when I can. Right? Sometimes you just can't, but I'm not going to tell you that it's the majority of the time that we're not supporting values. Because they are supported.

Harriet: Right. Understand to the listeners that appraisal is as good as the appraiser who does it. Because they have the word that the banks listen to. Sometimes you can get an appraiser that gets stuck in a place where they're not looking at the pendings and not looking at the overall market the way that you are.

Sellers need to understand that the appraisal affects them as well. Because if the appraisal comes in lower then there may be a negotiation that goes on before they close because it's still an unconditional contract. Do the nuances change with refinancing homeowners and appraisals or is it pretty much the same thing?

John: No theoretically there should be no difference at all. The art and the act of appraising doesn't change at all for a refi or a sale. You talk about the bank. The appraiser is the eyes and the ears for a bank. So they do put a lot of trust in us to give them a good picture of what the situation is with the house, what type of condition it's in, and with the market. What's the condition of the market? So that's what we do. It's a very, as you mentioned, I think it's one of the most important aspects or most important pieces of the puzzle in the mortgage process.

Harriet: Correct. Correct. How long does an appraisal take?

John: So if you're talking about the field inspection, the field inspection usually takes about anywhere between 20 minutes and an hour. What an

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appraiser does is come out to the property, takes pictures of the house on the exterior, measures the house to give an idea of how big the house is, the square footage of the home.

Then takes a walk through the house, looks at the renovations if there are any renovations made to the home. The number of bedrooms, number of bathrooms. How big the house is. Is the basement finished? Is the attic finished? When were the kitchen and bath remodeled? Did you do an addition? When was that addition made? So that's the field inspection. That takes no longer than an hour, typically. That's the easy part of the appraisal.

The tough part is when we get back in the office and we see what we have. We have a 2700 square foot home that has four bedrooms and three and a half baths. Then we've got to go into the neighborhood and try to find sales and listings that are comparable to the home. After making different types of adjustments, we come up with a value. So that's the long part of it. It varies for different appraisers and different skill levels, but I would say it's anywhere from a three hour process to a seven or eight hour process.

Harriet: Right, right. That's always the challenging part for agents as well to come up with a list price to advise buyers what they feel the real value of a house is without an appraiser's license just on experience and knowing the inventory in the area as well as we do. What does it cost to have an appraisal?

John: So typically an appraisal is between \$500 and \$700 for a home under a million dollars. Once you get over a million dollars, it's higher. It's considered more complex, more insurance issues, and that type of thing. So it's a higher fee at that point. Your typical appraisal costs now between \$500 and \$700.

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Harriet: Okay and then after the appraisal, you submit something to the bank. Then there's a time period. I guess it goes to the loan officer.

John: No, it goes to the lender. The loan officer only gets involved when he has to in regard to the appraisal. So the time table for an appraisal these days is typically two weeks to three weeks. So figure 10 to 20 days. Right now I'm promising my clients a two week turnaround time from the acceptance of the order to when they'll have it back. Many times I'll have it back to them within seven days. I like to under promise and overdeliver. I like to under promise and overdeliver my clients.

Harriet: Okay. That time period is from when you first make the call to set up the appointment or from the appointment itself?

John: No that time is from when the bank sends me the order.

Harriet: Okay so it's when you call the agents to schedule.

John: No I might receive an order today, and I might not make a call immediately. I might make a call tomorrow or the next day. So once I get that order on Monday, they can expect to have it back within two weeks from that Monday.

Harriet: Okay one of the things you just said in your conversation actually came to mind. Because our last podcast was about insurance and making sure that if you do a renovation, you upgrade your home insurance because you've upgraded the value of your house and the replacement value. Do you find that people call you to do appraisals for that scenario or not so much?

John: So Harriet no, I don't think I've ever gotten a phone call for insurance purposes. Strictly mortgage purposes, estate purpose, divorce purposes, tax grievance purposes, but never for a homeowner to say, "Listen I just

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added \$400,000 worth of improvements to my home. I need an insurance appraisal to tell the insurance company what it's worth."

Harriet: Right so obviously the insurance companies don't ask for an appraisal. They're just looking for a ball park I guess.

John: In my experience, that's the case.

Harriet: Okay and what factors really lower a home appraisal? What are the glaring factors that you see that make you say, "I really have to think about this one."

John: So externally what's going on in the immediate proximity to the subject. Is the subject located on a busy road? Does it have the park way rearing the home? Is it located two doors down from a gas station or from a mall? So externally that puts up a red flag and the appraiser needs to take that into consideration. Those types of characteristics do impact the value of the home.

Harriet: That makes sense.

John: Once you walk into the home, your biggest things is going to be your kitchen and your bathrooms and the overall condition of the home. So if a home hasn't been touched in 25 years, it's going to be cause the appraiser to make large adjustments to a comparable home that's been renovated five years ago or recently. That type of thing. A basement is very important whether it's finished or unfinished and the type of finish, the quality of the finish. That type of thing.

Harriet: What about the lack of a basement?

John: Yeah, sure. What I like to tell people is try to think about what your typical buyer is going to want to pay for a home with a basement and

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without a basement. So if you have two homes right next to each other, one has a basement, one doesn't have a basement. Which house do you think is going to want to move into and how much more are they going to pay for that house?

Harriet: Right and it's funny because as you were talking the main road, the kitchen, the bathrooms. Those are all the things that a buyer's going to consider a tradeoff to a purchase price and to make an offer. They may find their dream house on a main road and say, "Okay, but I can't afford this house on a quiet street. So I'm okay with that." So it's actually pretty much the same thing. I know you started a Facebook group Ask the Appraiser. What made you decide to do that? What would you like our listeners today to know about it?

John: Well, I appreciate you bringing that up. About six months ago or maybe a little longer now I started a group called Ask the Appraiser on Facebook. It's a national group. It's got close to 3500 members on it. What it is it's really for agents, for loan officers, and for borrowers to reach out to an appraiser and ask them any kind of appraisal questions they might have. There's no question that's silly. I feel any and all questions from these people.

I got involved and interested in doing it because I speak to quite a few agents offices. Over the years, I've realized that the agent and the appraiser don't really get along that well for the most part or for some part. I wanted to change that around. I wanted to give the agents an opportunity to find out about the process, ask me different appraisal questions, and have any thoughts or concerns that they might have.

So I started that. It's taken off. It's starting to grow. With that, I also started a YouTube channel called Tips from the Appraiser. John Copulos Tips from the Appraiser. There I drop videos every week and talk about the appraisal process.

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Harriet: That's really interesting.

John: Yeah. I like to say that I pull the curtain back from the Wizard of Oz with the appraiser being the all mighty Wizard of Oz. I try to pull the curtain back away from him. We know where our place is. We should be working together, and everybody should understand the process, especially such an important one.

Harriet: It's mindboggling to me that you're saying that there's such a gap between agents and appraisers. Because as an agent who's done this for 20 years, maybe that's why I like you and know you. I feel that if I am not in tune with what appraisers are looking at, how am I guiding somebody for a purchase price or a list price that's not going to cause a problem in the transaction? Appraisers call me all the time.

When I meet appraisers to ask me about my listings, to ask me. I always offer if you ever need to know something about a house, give me a call. Because we see every house. We walk in. We know the houses that looked really good online, but there was a glaring problem whether it had an odor. It just was a totally unrealistic photos that made it look far superior, the land, the house itself, to what it was. I always try to help. So I think it's important. It's really important.

John: So let me just—

Harriet: And not just on my listings. Because let me just say that I try not to put photos that are unrealistic on my own listing, but there are many agents that do.

John: No doubt about it.

Harriet: You know it's a challenge.

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John: So listen. You know you're a veteran. You know what you're doing. Not every agent is successful. Not every agent has 20 years of experience.

So just for example, I'm going to give you two quick examples. When I go take a look at a ranch style house, 1500 square feet, three bedrooms, two baths. You don't know how many times the agent will bring me colonial sales that are 1,000 square feet larger that are 25 years younger than the subject. I cannot use those types of sales. We're looking for comparable sales. We're not just looking for any sale in the neighborhood. We're looking for comparable sales.

So what I do on my page is I teach them that type of thing. What comparable works for a ranch. What comparable works for a colonial. That type of thing. So that's one thing.

You talked about the appraiser and the agent. I did an appraisal before I started my page, and this was the impetus to start my page. I met an agent who was in the business for three years. She tells me, "I don't bring comparable sales to an appraisal appointment because the first appraisal appointment I ever was on, I gave the appraiser comparable sales data. The appraiser ripped up the pages in front of me and said I don't use your comparable sales."

So when I heard that, I said you know what? Things have got to change in the relationship between the appraiser and the agent. So that's what I do. I talk about the process and I help agents learn about what makes a good comparable. I talk to them about the external factors that affect the effective value. I talk to them about how do you come up with—if the house has a pool or if a house doesn't have a basement, how do you come up with an adjustment for that when you're doing your listing?

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Harriet: Which is something I've always tried to learn. So now you're the celebrity appraiser. You deserve it. You deserve it. You've been a pleasure to work with all this time.

John: Well thank you Harriet.

Harriet: You know I've called you in when I was stumped on certain things. I needed to understand what I was up against so that I could do a better job for my client. I do believe that that's what you're projecting and suggesting to agents on your page. So thank you for that.

John: So I suggest to agents that they have a relationship with an appraiser, right, just as you have a relationship with me. I'm sure you know others, you can lean on them when you appraisal questions. Since this is for homeowners, I think it's very important for them to reach out to an appraiser that their agent might know or a friend might recommend an appraisal.

If you're thinking about listing your home, get an idea from a certified appraiser what the value's worth. Get an idea of how difficult the appraisal's going to be so that when they sell the house and they sell it for a particular price.

If they have an appraisal that tells them that the house was worth \$750,000 and they have an offer for \$795,000, they're going to then realize you know what? I may have a little bit of an issue having my buyer get an appraisal that's good at \$795,000. I might have to accept that offer of \$795,000, but I might need to get more a down payment from that buyer. So if that buyer is willing to put down \$100,000, I'm going to feel better than a buyer who's putting down 5% of the value. That type of thing.

Harriet: Right. Right.

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John: So I think it's important for everybody to have some sort of relationship with the appraiser.

Harriet: Right. Now it's always been a suggestion in a more of a buyer's market. When sellers don't have a realistic view of what their house is worth and they think it's worth more to have somebody come in and give them an appraisal so that they do understand the process a little bit more. So thank you. Thank you so much for your time. I know that it was hard during the holidays to find a time to do this. I really appreciate it. I wish you and your family a wonderful holiday.

John: You too.

Harriet: I look forward to speaking with you again.

John: All the best in 22. Thanks for having me on, and I hope it was helpful.

Harriet: Okay. It was helpful. Thanks so much John.

John: All right Harriet. Bye, bye now.

Harriet: Okay bye.

John: Bye.

When everything goes smoothly, the home appraisal is just another box to check off for the closing checklist. When the appraisal value is lower than expected, the transaction can be delayed or derailed. In a market where buyers are waiving contingencies like we are in now, it's a very relevant piece of the puzzle. Regardless of which situation you encounter in your home buying, selling, or refinancing experience, a basic understanding of how the process functions can only work in your favor. Especially if you're buying your first home.

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Thanks for listening today. Next episode we'll be learning about the status of the New York City market and the outlook for 2022. Have a wonderful holiday season, and stay tuned.

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